



# Israel: Background and U.S. Relations

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## Summary

Since Israel's founding in 1948, successive U.S. Presidents and many Members of Congress have demonstrated a commitment to Israel's security and to maintaining close U.S.-Israel defense, diplomatic, and economic cooperation. U.S. and Israeli leaders have pursued common security goals and have developed close relations based on common perceptions of shared democratic values and religious affinities. U.S. policymakers often seek to determine how regional events and U.S. policy choices may affect Israel's security, and Congress provides active oversight of executive branch dealings with Israel and the broader Middle East. Some Members of Congress and some analysts criticize what they perceive as U.S. support of Israel without sufficient scrutiny of its actions. Other than Afghanistan, Israel is the leading recipient of U.S. foreign aid and is a frequent purchaser of major U.S. weapons systems. The United States and Israel maintain close security cooperation—predicated on a U.S. commitment to maintain Israel's "qualitative military edge" over other countries in its region. The two countries signed a free trade agreement in 1985, and the United States is Israel's largest trading partner. For more information, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

Israel's perceptions of security around its borders have changed since early 2011 as several surrounding Arab countries—including Egypt and Syria—have experienced political upheaval or transition. Of particular concern to Israel is the durability of its 33-year-old peace treaty with Egypt, where a new Islamist-led government may become more reflective of popular sentiment that includes anti-Israel strains. Israeli leaders continually call for urgent international action against Iran's nuclear program, and have hinted at the possibility of a unilateral military strike against Iran's nuclear facilities. For more information, see CRS Report R42443, *Israel: Possible Military Strike Against Iran's Nuclear Facilities*, coordinated by Jim Zanotti. Israel also perceives an expanding rocket threat from non-state actors such as the Lebanese Shiite group Hezbollah, as well as Hamas and other militants in Gaza and Egypt's Sinai Peninsula.

Recent regional developments and Israeli reactions to them have reinforced the political impasse between Israel and the Palestinians on core issues in their longstanding conflict, calling into question the land-for-peace formula that has guided years of efforts to resolve it. Since the end of the 1967 Arab-Israeli war, Israel has militarily occupied and administered the West Bank, with the Palestinian Authority exercising limited self-rule in some areas since 1995. Israeli settlement of that area, facilitated by successive Israeli governments, has resulted in a population of approximately 500,000 Israelis living in residential neighborhoods or settlements in the West Bank (including East Jerusalem). These settlements are of disputed legality under international law. Israel considers all of Jerusalem to be the "eternal, undivided capital of Israel," despite Palestinian claims to a capital in East Jerusalem and some international actors' support for special political classification for the city or specific Muslim and Christian holy sites. Although Israel withdrew its permanent military presence and its settlers from the Gaza Strip in 2005, it still controls most access points and legal commerce to and from the territory.

Despite its unstable regional environment, Israel has developed a robust diversified economy and a vibrant democracy. Political debates are being shaped in new ways by population increases among Jewish ultra-Orthodox and Russian-speaking communities and Israel's Arab citizens. Many analysts assert that national elections scheduled for January 22, 2013 will probably result in another government coalition headed by Prime Minister Binyamin Netanyahu. Initial reports indicate that the campaign will focus largely on Israel's handling of the Iran and Palestinian issues—including coordination on these issues with the United States—as well as the economy.

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## Introduction

U.S.-Israel defense, diplomatic, and economic cooperation has been close for decades. U.S. policymakers often consider Israel's security as they make policy choices in the region. Israel has relied on U.S. support for its defense posture, despite reported private and sometimes public disagreements between U.S. and Israeli officials on how to respond to and prioritize various challenges in a shifting regional environment. Congress provides active oversight of the executive branch's dealings with Israel. Some Members of Congress oppose what they perceive as U.S. support of Israel without sufficient scrutiny of Israel's actions. Other Members of Congress have criticized actions by the Obama Administration and previous U.S. Administrations for being insufficiently supportive of Israel, and occasionally have authorized and appropriated funding for programs benefitting Israel at a level exceeding that requested by the executive branch.

For several years now, Israeli leaders have considered Iran and its reported pursuit of a nuclear weapons capability to be the most imminent threat to Israeli security. Israeli officials have claimed that their window of opportunity to act on their own to delay, halt, or reverse Iranian progress toward a nuclear weapons capability is fast closing. Consequently, they have sought increasingly punitive international measures against Iran's nuclear program. They also have publicly hinted that—absent a clear resolution of Iran's nuclear ambitions to their satisfaction—they may order the Israeli military to strike Iranian nuclear facilities sometime in 2013. For more information on this subject, see CRS Report R42443, *Israel: Possible Military Strike Against Iran's Nuclear Facilities*, coordinated by Jim Zanotti. Reports abound of an ongoing “shadow war” involving the United States and Israel against Iran in which alleged U.S.-Israel cyberattacks and Israeli-sponsored assassinations of Iranian nuclear program principals are countered by alleged Iranian or Hezbollah terrorist plots against Israeli targets worldwide—including Cyprus, Georgia, Thailand, and India. Several reports identify Hezbollah as the perpetrator of the July 2012 suicide bus bombing in Burgas, Bulgaria that targeted an Israeli tourist group<sup>1</sup>—killing six (including the Bulgarian driver) and injuring 32.

Many Israeli officials also are concerned with the rise of Islamist political movements and threats posed by violent jihadist terrorist groups emanating from the political unrest wrought by the so-called “Arab Spring.” Israel has few means of influencing political outcomes in Egypt, Syria, Lebanon, or Jordan, but developments in those states may significantly affect Israeli security. Instability in Egypt's Sinai Peninsula has already been used by militant groups—probably including Al Qaeda-style Palestinian cells—for attacks on Israeli targets.

Political change in the Arab world and continuing stalemate in the Israeli-Palestinian peace process have partly driven the Palestine Liberation Organization (PLO)'s pursuit of greater international recognition of Palestinian statehood. These efforts and Israel's reaction to them have reinforced and perhaps deepened the political impasse on core issues of Israeli-Palestinian conflict—security parameters, borders, Jewish settlements, water rights, Palestinian refugees, and the status of Jerusalem. Additionally, many large and small Israeli population centers remain threatened by rocket fire from Hamas and other groups in Gaza<sup>2</sup> (and, increasingly, Sinai) and from Hezbollah in southern Lebanon.

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<sup>1</sup> Nicholas Kulish and Eric Schmitt, “Hezbollah Is Blamed for Attack on Israeli Tourists in Bulgaria,” *New York Times*, July 19, 2012.

<sup>2</sup> Rocket attacks from Gaza intensified in October 2012, prompting Israeli air strikes in response before Egypt (continued...)

# Country Background

## Historical Overview<sup>3</sup>

The start of a quest for a modern Jewish homeland can be traced to the publication of Theodor Herzl's *The Jewish State* in 1896. Herzl was inspired by the concept of nationalism that had become popular among various European peoples in the 19<sup>th</sup> century, and was also motivated by his perception of European anti-Semitism. The following year, Herzl described his vision at the first Zionist Congress, which encouraged Jewish settlement in Palestine, the territory that had included the Biblical home of the Jews but was then part of the Ottoman Empire. During World War I, the British government issued the Balfour Declaration in 1917, supporting the "establishment in Palestine of a national home for the Jewish people." Palestine became a British Mandate after the war and British officials simultaneously encouraged the national aspirations of the Arab majority in Palestine for eventual self-determination, insisting that its promises to Jews and Arabs did not conflict. Jews immigrated to Palestine in ever greater numbers during the Mandate period, and clashes between Arabs and Jews and between each group and the British increased. Following World War II, the plight of Jewish survivors of the Holocaust gave the demand for a Jewish home added poignancy and urgency, while Arabs across the Middle East simultaneously demanded self-determination and independence from European colonial powers.

In 1947, the United Nations General Assembly developed a partition plan (Resolution 181) to divide Palestine into Jewish and Arab states, proposing U.N. trusteeship for Jerusalem and some surrounding areas. The leadership of the Jewish Yishuv (or polity) welcomed the plan because of the legitimacy it conferred on the Jews' claims in Palestine despite their small numbers, while the Palestinian Arab leadership and the League of Arab States (Arab League) rejected the plan, insisting both that the specific partition proposed and the entire concept of partition were unfair given Palestine's Arab majority. Debate on this question prefigured current debate about whether it is possible to have a state that both provides a secure Jewish homeland and is governed in accordance with democratic values and the principle of self-determination.

After several months of civil conflict between Jews and Arabs, Britain officially ended its Mandate on May 14, 1948, at which point the state of Israel proclaimed its independence and was immediately invaded by Arab armies. During and after the conflict, roughly 700,000 Palestinians were driven or fled from their homes, an occurrence Palestinians call the *nakba* ("catastrophe").<sup>4</sup> Many became internationally-designated refugees after ending up either in areas of Mandate-era Palestine controlled by Jordan (the West Bank) or Egypt (the Gaza Strip), or in nearby Arab states. Palestinians remaining in Israel became Israeli citizens.

The conflict ended with armistice agreements between Israel and its neighbors: Egypt, Jordan, Lebanon, and Syria. The territory controlled by Israel within these 1949-1950 armistice lines is roughly the size of New Jersey. Israel engaged in further armed conflict with some or all of its

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(...continued)

reportedly mediated an informal "quiet."

<sup>3</sup> For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York: Knopf, 1996.

<sup>4</sup> CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti.

neighboring Arab states in 1956, 1967, 1973, and 1982. Since the late 1960s, Israel has also dealt with the threat of Palestinian nationalist and Islamist terrorism. In 1979, Israel concluded a peace treaty with Egypt, followed in 1994 by a peace treaty with Jordan, thus making another multi-front war less likely. However, as discussed throughout the report, major security challenges persist from Iran and groups allied with it. Additionally, developments in Arab states and regarding the ongoing Israeli-Palestinian conflict further complicate Israel's regional position.

## **Demographic Changes**

Israel's demographic profile is evolving in a way that appears to be affecting its political orientation and societal debates. In the first decades following its founding, Israeli society was dominated by secular Ashkenazi Jews from Eastern Europe who constituted the large majority of 19<sup>th</sup> and early 20<sup>th</sup> century Zionist immigrants. Many leaders from these immigrant communities sought to build a country dedicated to Western liberal and communitarian values. The 1977 electoral victory of Menachem Begin's Likud Party helped boost the influence of previously marginalized groups, particularly Mizrahi Jews who had largely immigrated to Israel from Arab countries and Iran. Subsequently other groups, such as Haredim (ultra-Orthodox) from communities that predated Zionist immigration, and Russian-speaking Israelis who emigrated from the former Soviet Union in the 1990s,<sup>5</sup> have increased their prominence in Israeli society. Israel also faces increasing estrangement between its Jewish and Arab citizens. Arabs comprise more than 20% of the population, and Islamist movements have gained in popularity in some Arab Israeli communities.

Political parties linked to growing segments of Jewish Israeli society tend to favor the right side of the Israeli political spectrum currently led by Binyamin Netanyahu and Likud. At the same time, support for traditionally left-leaning Zionist parties such as Labor and Meretz has significantly decreased, with many Israelis viewing them as anachronistic forces whose ideas have been discredited. Issues regarding religiosity in the public sphere and secular consternation at subsidies and exemptions from military service for Haredim (many of whom engage in religious study as an alternative to employment) are increasingly contentious, even creating some political tension within the ruling coalition. Military service remains compulsory for most Jewish Israeli young men and women.

Many analysts believe that these demographic trends partly explain why Israel's current Jewish population is "more nationalistic, religiously conservative, and hawkish on foreign policy and security affairs than that of even a generation ago."<sup>6</sup> These trends' likely long-term effects on Israel's internal cohesion and its ties with the United States and other international actors are unclear.

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<sup>5</sup> Most of these Russian-speaking emigrants are Ashkenazi and tend to be secular, but are generally more sympathetic with right-leaning parties than with the old Ashkenazi elite.

<sup>6</sup> Haim Malka, *Crossroads: The Future of the U.S.-Israel Strategic Partnership*, Washington, DC: Center for Strategic and International Studies, 2011, p. 19.

Figure I. Map of Israel



Source: CIA, *The World Factbook*.



## Government and Politics

### Overview

Israel is a parliamentary democracy in which the prime minister is head of government and the president is a largely ceremonial head of state. The unicameral parliament (the Knesset) elects a president for a seven-year term. The president designates the leader of the party with the most seats in parliament or the one with the best chance to form a stable government as prime minister. The prime minister relies on cabinet votes to determine the government's course of action on domestic issues, while military and national security action are directed through a "security cabinet" consisting of nearly half the cabinet members.

The political spectrum is highly fragmented, with small parties exercising disproportionate power due to the low vote threshold for entry into the Knesset and the need for larger parties to seek their support to form and maintain coalition governments. For the March 2006 election, the threshold was raised from 1% to 2%. This was intended to bar smaller parties from parliament, but some parties merged to overcome the threshold. National elections must be held at least every four years, but are often held earlier due to difficulties in holding coalitions together. Since Israel's founding, the average life span of an Israeli government has been about 23 months. In recent years, however, the conditions for bringing down a government have become more stringent.

Israel does not have a written constitution. Instead, 11 Basic Laws lay down the rules of government and enumerate fundamental rights. Israel has an independent judiciary, with a system of magistrates courts and district courts headed by a Supreme Court.

**Table I. Parties in the Knesset, 2012**

| Seats | Party                                   | Orientation and Views                                                                                                                                                                                    | Coalition or Opposition |
|-------|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 28    | Kadima                                  | Centrist; a Palestinian state must be established to ensure that Israel remains a democratic, Jewish state                                                                                               | Opposition              |
| 27    | Likud                                   | Rightist; two-state solution acceptable in principle, but subject to several conditions that may not signal an urgent approach to the question                                                           | Coalition               |
| 15    | Yisrael Beiteinu (Israel Our Home)      | Russian-speakers; Rightist; Nationalist; Secular; only favors establishing a Palestinian state if Israeli Arabs and their territory are exchanged for some Jewish settlers and settlements               | Coalition               |
| 11    | Shas                                    | Sephardi; Ultra-orthodox; seeks more social welfare and education funds; opposes "division" of Jerusalem by ceding its eastern portion for a Palestinian capital                                         | Coalition               |
| 8     | Ha'avoda (Labor)                        | Leftist; Social-democrat; urgency in establishing a Palestinian state alongside a Jewish state                                                                                                           | Opposition              |
| 5     | Ha'atzma'ut (Independence)              | Break-off from Labor party under Ehud Barak <sup>a</sup>                                                                                                                                                 | Coalition               |
| 5     | United Torah Judaism (UTJ) <sup>b</sup> | Ashkenazi; Ultra-Orthodox; opposes separation of religion and state and drafting of ultra-orthodox young men into the military; advocates application of more Jewish law in the state; seeks more social | Coalition               |

| Seats | Party                                                                          | Orientation and Views                                                                                                                                                                                                          | Coalition or Opposition |
|-------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|       |                                                                                | welfare and education funds                                                                                                                                                                                                    |                         |
| 4     | National Union (NU) <sup>c</sup>                                               | Nationalist; Ashkenazi Orthodox; opposes establishment of a Palestinian state west of the Jordan River; for annexation of territories captured in 1967, legalization of unauthorized outposts, and building of new settlements | Opposition              |
| 4     | Hadash (Democratic Front for Peace and Equality)                               | Israeli-Arab; Communist; for withdrawal to 1967 borders; for separation of religion and the state                                                                                                                              | Opposition              |
| 4     | Ra'am-Ta'al (United Arab List)                                                 | Israeli-Arab; Islamist; for withdrawal to 1967 borders and the creation of a Palestinian state                                                                                                                                 | Opposition              |
| 3     | Habayet Hayehudi (Jewish Home)-New National Religious Party (NRP) <sup>c</sup> | Nationalist; Ashkenazi Orthodox; opposes a Palestinian state; settlements should remain under Israeli sovereignty                                                                                                              | Coalition               |
| 3     | Balad (National Democratic Assembly)                                           | Israeli-Arab; leftist; for an Israeli state that is not Jewish in character alongside a Palestinian state                                                                                                                      | Opposition              |
| 3     | New Movement/Meretz                                                            | Leftist; Civil libertarian; Secular; peace activists for withdrawal to 1967 borders                                                                                                                                            | Opposition              |

- a. Ehud Barak and four other members broke from the Labor party on January 17, 2011, and formed the new Ha'atzma'ut (Independence) party. The break came after the Labor party threatened to leave Prime Minister Netanyahu's coalition due to the stalled peace process. The Independence party stayed with the coalition, while the remaining members of the Labor party broke with it. The split allowed Netanyahu to keep a majority coalition (66 of 120 Knesset Members) and allowed Barak to avoid backlash from within his own party. See Daniel Levy, "A Requiem for Israel's Labor Party," *foreignpolicy.com*, January 17, 2011.
- b. Includes Degel HaTorah and Agudat Yisrael.
- c. Previously aligned as NU/NRP for a combined 9 seats; NU and Jewish Home split over a joint electoral list.

**Table 2. Key Cabinet Ministers**

| Post(s)                                                                                                                                       | Incumbent          | Party            |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|
| Prime Minister, Minister of Economic Strategy, Minister of Pensioner Affairs, Minister of Health, and Minister of Science, Culture, and Sport | Binyamin Netanyahu | Likud            |
| Vice Prime Minister, Minister for Regional Development, Minister for Development of the Negev and Galilee                                     | Silvan Shalom      | Likud            |
| Vice Prime Minister, Minister for Strategic Affairs                                                                                           | Moshe Ya'alon      | Likud            |
| Deputy Prime Minister, Minister of Foreign Affairs                                                                                            | Avigdor Lieberman  | Yisrael Beiteinu |
| Deputy Prime Minister, Minister of Defense                                                                                                    | Ehud Barak         | Independence     |
| Deputy Prime Minister, Minister of Interior                                                                                                   | Eli Yishai         | Shas             |
| Deputy Prime Minister, Minister of Intelligence and Atomic Energy                                                                             | Dan Meridor        | Likud            |
| Minister of Finance                                                                                                                           | Yuval Steinitz     | Likud            |

## Recent Developments

Israeli Prime Minister Binyamin Netanyahu and his Likud Party lead a multi-party coalition that is viewed as right-wing.<sup>7</sup> The coalition has been unusually stable in a system where governments have rarely completed their terms.<sup>8</sup> In October 2012, the government announced that national elections would be held on January 22, 2013—nine months before they were required to be held under law—because the coalition could not agree on a budget. Most polls and analyses predict another Netanyahu-led coalition, despite possible challenges from actors generally deemed “center-left”—former prime minister Ehud Olmert, former foreign minister Tzipi Livni, former journalist Yair Lapid, or Labor Party leader Shelly Yachimovich.<sup>9</sup> Initial reports indicate that the campaign will focus largely on Israel’s handling of the Iran issue—including coordination on the issue with the United States—and the economy.<sup>10</sup> Netanyahu announced in late October that

<sup>7</sup> In Israel, the left-right spectrum is generally defined by positions on the Israeli-Palestinian conflict/peace process, though the spectrum also has some validity in describing differences on economic and social issues.

<sup>8</sup> In May 2012, the centrist Kadima Party expanded Netanyahu’s coalition even further, likely motivated by concern over Kadima’s lackluster prospects as Netanyahu raised the possibility of early elections. However, Kadima’s leader Shaul Mofaz left the expanded coalition in July 2012 when Netanyahu refused to adopt Kadima’s preferences for making judicially-mandated changes to Israel’s law on mandatory military service. Mofaz favored a version that would have essentially eliminated any special treatment for ultra-Orthodox Israelis (Haredim), while Netanyahu apparently favors a version with greater accommodations for Haredim—likely owing to influence from his pro-Haredim coalition partners.

<sup>9</sup> Dan Perry, “Netanyahu faces wild cards in early elections,” *Times of Israel*, October 15, 2012.

<sup>10</sup> *Ibid.*

Likud would contest the elections on a joint slate with the Yisrael Beiteinu party of Foreign Minister Avigdor Lieberman.<sup>11</sup>

Despite a strong recent economic performance, Israel faced large, non-violent domestic protests in the summer of 2011 over cost of living and income distribution issues. Subsequent budgetary measures and political debate have focused on addressing these issues. The influence of ultra-orthodox Jewish communities on gender roles in the public sphere has also garnered attention in recent months. Netanyahu's government also is confronting frequent "price tag" attacks and vandalism by Israelis (including teenage gangs and West Bank settlers) against Palestinians, mosques and churches, NGOs, Palestinian homes and motorists, and even Israeli military bases in retaliation for government action against settler outposts unsanctioned by Israeli law (see "Settlements" below). Netanyahu's coalition includes supporters of these outposts. U.S. officials, including Secretary of State Hillary Clinton, have expressed concern over these developments.<sup>12</sup>

## **Economy**

Israel has an advanced industrial, market economy in which the government plays a substantial role. Despite limited natural resources, the agricultural and industrial sectors are well developed. The engine of the economy is an advanced high-tech sector, including aviation, communications, computer-aided design and manufactures, medical electronics, and fiber optics. Israel still benefits from loans, contributions, and capital investments from the Jewish diaspora, but its economic strength has lessened its dependence on external financing.

Although Israel's economy has demonstrated robust growth over the past decade, powered by an innovative high-tech sector, projections for 2012-2013 indicate some short-term slowing—to approximately 2.7% in annual GDP growth (from nearly 5% in 2010-2011), according to the Economist Intelligence Unit.<sup>13</sup> When Prime Minister Netanyahu was finance minister in the early 2000s, the government attempted to liberalize the economy by controlling government spending, reducing taxes, and privatizing state enterprises. The chronic budget deficit decreased, while the country's international credit rating was raised, enabling a drop in interest rates. However, Netanyahu's critics suggest that cuts in social spending widened income inequality and shrank the Israeli middle class.

During the summer of 2011, large groups of Israelis from across economic and cultural backgrounds came together to protest economic inequality and what they perceived as an unfairly high cost of living.<sup>14</sup> The protests occurred despite Israel's impressive macroeconomic profile and fiscal position. Various factors—including Israel's communitarian heritage, its tradition of vigorous public debate, and the consequences of deregulation for a system characterized by some as "crony capitalism"<sup>15</sup>—may have contributed to this situation.

In response to the protests, Netanyahu empowered a committee headed by economist Manuel Trajtenberg to make economic policy recommendations. In light of these recommendations and a

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<sup>11</sup> Jonathan Lis, "Netanyahu, Lieberman team up for election," *Ha'aretz*, October 26, 2012.

<sup>12</sup> Barak Ravid, "Clinton warns of Israel's eroding democratic values," *Ha'aretz*, December 5, 2011.

<sup>13</sup> Economist Intelligence Unit, *Country Report: Israel*, September 2012.

<sup>14</sup> See "Street Power," *Economist*, August 6, 2011.

<sup>15</sup> Daniel Doron, "Crony Capitalism in Israel," *Wall Street Journal*, October 9, 2010.

growing budget deficit, the Netanyahu coalition government in July 2012 proposed a mix of tax increases and spending cuts for 2013,<sup>16</sup> after abandoning the two-year budget cycle instituted in 2009 because of the impending elections. As mentioned above, Netanyahu cited the coalition's failure to agree on a budget as the reason for early elections. A final Knesset vote on the budget can be delayed until the end of March 2013, with the government managing finances within the framework of the 2012 budget in the meantime.<sup>17</sup>

**Table 3. Basic Facts**

|                                             |                                                                                                                                                                                    |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Population                                  | 7.59 million (2012 est.) (includes an estimated 311,100 settlers in the West Bank (2010 est.), 186,929 in East Jerusalem (2010 est.), and 18,100 in the Golan Heights (2010 est.)) |
| Jews                                        | 75.4%                                                                                                                                                                              |
| Arabs                                       | 20.5% (84.0% Muslim, 8.1% Druze, 7.8% Christian) (2010 est.)                                                                                                                       |
| Real Gross Domestic Product growth rate     | 2.4% (2012 est.)                                                                                                                                                                   |
| GDP per capita (at purchasing power parity) | \$31,400 (2011 est.)                                                                                                                                                               |
| Unemployment rate                           | 6.3% (2012 est.)                                                                                                                                                                   |
| Population below poverty line               | 23.6% (2007 est.)                                                                                                                                                                  |
| Inflation rate                              | 2.1% (2012 est.)                                                                                                                                                                   |
| Military spending as % of GDP               | 6.4% (2012 est.)                                                                                                                                                                   |
| Budget deficit as % of GDP                  | 4.0% (2012 est.)                                                                                                                                                                   |
| External Debt as % of GDP                   | 32% (2012 est.)                                                                                                                                                                    |
| Foreign exchange and gold reserves          | \$75.2 billion (2012 est.)                                                                                                                                                         |
| Current account (Trade) deficit as % of GDP | 1.1% (2012 est.)                                                                                                                                                                   |
| Exports                                     | \$64.74 billion (2012 est.)                                                                                                                                                        |
| Export commodities                          | machinery and equipment, software, cut diamonds, agricultural products, chemicals, textile and apparel                                                                             |
| Export partners                             | U.S. 28.8%, Hong Kong 7.9%, Belgium 5.6%, United Kingdom 5%, India 4.5%, China 4% (2011 est.)                                                                                      |
| Imports                                     | \$77.59 billion (2012 est.)                                                                                                                                                        |
| Import commodities                          | raw materials, military equipment, investment goods, rough diamonds, fuels, grain, consumer goods                                                                                  |
| Import partners                             | U.S. 11.8%, China 7.4%, Germany 6.2%, Belgium 6.1%, Switzerland 5.4%, Italy 4.2% (2011 est.)                                                                                       |

<sup>16</sup> Moti Bassok et al., "Israeli cabinet approves wide-ranging budget cuts," *haaretz.com*, July 30, 2012.

<sup>17</sup> Economist Intelligence Unit, "2013 budget impasse continues," October 2, 2012.

**Sources:** Central Intelligence Agency, *The World Factbook*; Economist Intelligence Unit; Israel Central Bureau of Statistics, *Jane's Defence Budgets*.

Reported offshore natural gas finds in recent years could have substantial implications for Israel's energy security. In December 2010, Noble Energy, a U.S.-based energy company, reconfirmed its estimates for its third, and largest, natural gas discovery off the northern coast of Israel, the Leviathan field, which has an estimated gross resource base of 16 trillion cubic feet (tcf) of natural gas. Noble Energy estimates that its three natural gas discoveries since 2009—Tamar, Dalit, and Leviathan—have 25 tcf of gross resources. Once these sources begin production, which is expected as early as 2013 for Tamar<sup>18</sup> and by 2018 for the other two, they could transform Israel from a net energy importer with a 16-year supply of natural gas to a net exporter with over a 100-year supply.<sup>19</sup> In early 2011, the Knesset approved a new taxation scheme that will boost the government's share of oil and gas revenue from approximately 30% to between 52% and 62%.

## U.S.-Israel Relations

On May 14, 1948, the United States became the first country to extend de facto recognition to the state of Israel. Over the years, despite occasional policy differences, the United States and Israel have maintained close bilateral ties based on common democratic values, religious affinities, and security interests. Relations have evolved through legislation; memoranda of understanding; economic, scientific, and military agreements; and trade. Congress provides military assistance to Israel and has enacted other legislation in explicit support of its security. Many analysts view these forms of support as pillars of a regional security order—largely based on varying types and levels of U.S. arms sales to Israel and Arab countries—that have discouraged the outbreak of major Arab-Israeli interstate conflict for nearly 40 years.<sup>20</sup>

### General Assessment

Israel's evolving regional and domestic pictures, along with U.S. budgetary constraints, have led to a situation in which many Israeli leaders assert that they are facing an unparalleled confluence of largely asymmetric security challenges, at the same time that they perceive diminishing U.S. capability—at least in the short term—to affect developments in the region.<sup>21</sup> Israel's regional conventional military superiority persists and may even continue to grow, but an Israeli commentator has expressed that recent events “have potentially made Israel's increasing conventional superiority less relevant to Israeli security, leaving Israel vulnerable to an array of security challenges.”<sup>22</sup> This vulnerability is exacerbated by Israel's general lack of influence on

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<sup>18</sup> <http://www.nobleenergyinc.com/operations/international/eastern-mediterranean-128.html>.

<sup>19</sup> For more information on this subject, see CRS Report R41618, *Israel's Offshore Natural Gas Discoveries Enhance Its Economic and Energy Outlook*, by Michael Ratner.

<sup>20</sup> Malka, op. cit., pp. 93-94.

<sup>21</sup> See, e.g., Efraim Inbar, “Israel's National Security Amidst Unrest in the Arab World,” *Washington Quarterly*, vol. 35, no. 3, Summer 2012. Such perceptions, to the extent they exist, likely result from a complex array of factors, possibly including popular U.S. attitudes seeking to avoid or minimize future military action in the region given the past decade's deployments to Iraq and Afghanistan.

<sup>22</sup> Inbar, op. cit.

political and economic outcomes in Arab countries and Iran. In addition, U.S. material support for Israel remains largely concentrated on boosting its conventional military capabilities.

However, Israelis and other observers debate the extent of Israel's vulnerability. While some newly empowered groups in Arab states have showed signs of asserting a more confrontational political stance, regional rumblings have not led to direct threats of large-scale, unprovoked attack against Israel's population or territory. Heightened security measures for Palestinians; missile defense systems; reported cyberwarfare capabilities; and deterrence arguably established by past conflicts with Hezbollah and Hamas have undermined some unconventional security threats. In light of these conditions, it is possible to argue that Israel's security situation is neither desperate nor heading in that direction.<sup>23</sup>

In consequence of concerns about regional challenges and U.S. influence, Israeli leaders and their supporters may actively try to persuade U.S. decision makers both that

- Israel's security and the broader stability of the region continue to be critically important for U.S. interests; and
- Israel has substantial and multifaceted worth as a U.S. ally beyond temporary geopolitical considerations and shared ideals and values.<sup>24</sup>

These efforts would seek to bolster the already strong popular and official U.S. commitment to Israel's security. They also may aim to minimize possible demands by U.S. policymakers for Israel to repay potentially greater U.S. commitment in response to regional challenges by deferring to and coordinating more with the United States on regional military action and on diplomacy with Palestinians.<sup>25</sup> This could fuel or intensify U.S.-Israel disagreement over how Israel might continue its traditional prerogative of "defending itself, by itself."

Increased global perceptions of U.S. responsibility for Israel's policies could also drive U.S. concerns that Israeli regional and international isolation may worsen and increasingly affect U.S. interests, prompting questions about what Israel might do to counter this trend. Will it seek to improve relations—or at least ensure against their further deterioration—with Turkey, Egypt, and Jordan, and if so, how? Is Israel likely to show flexibility regarding its security practices, negotiating demands, or diplomatic tactics? Israel's actions may depend on whether its leaders believe that changes in their policies can elicit reciprocation from other regional actors. Some Israelis argue that efforts to isolate them are led by implacable enemies determined to spread anti-Israel and anti-Semitic attitudes, and thus bear no relationship to Israel's policies.

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<sup>23</sup> One former U.S. official has written, "The Israelis have major demographic, security and political problems. It's even possible, without worst casing matters, to worry about the future survival of Israel as a Jewish democratic state. But states just don't disappear and collapse. The risk in worst-casing the Israel story is that we infantilize the country—assume that it's a transient entity headed for a disaster and that there are no options to divert the terrible end." Aaron David Miller, "Debunking Myths on Israel and U.S. Foreign Policy," *op. cit.*

<sup>24</sup> See, e.g., Michael Eisenstadt and David Pollock, *Asset Test: How the United States Benefits from Its Alliance with Israel*, Washington Institute for Near East Policy, September 2012.

<sup>25</sup> According to one report, some U.S. military officers and analysts, including "senior Pentagon officials, generals and independent defense strategists," weigh the "direct military benefits the United States receives from its partnership with Israel ... against the geopolitical costs the relationship imposes on Washington in its dealings with the broader Arab and Muslim world; some suggest a net negative outcome for Washington in the equation." Nathan Guttman, "Israel Is Strategic Asset After All," *Jewish Daily Forward*, November 18, 2011.

## Regional Security Concerns on Matters of U.S. Interest

Over the nearly 40 years since the last major Arab-Israeli war in 1973, Israel has relied on the following three advantages—all either explicitly or implicitly backed by the United States—to remove or minimize potential threats to its security and existence:

- Overwhelming conventional military superiority;
- Formally ambiguous but universally presumed regional nuclear weapons exclusivity,<sup>26</sup> and
- De jure or de facto arrangements or relations with the authoritarian leaders of its Arab state neighbors aimed at preventing interstate conflict.

## Challenges from Iran and Arab Neighbors

In recent years two major developments have threatened Israel's strategic advantages in the region. First, the progression of Iran's nuclear program to a point where many international observers believe it is on the threshold of either building a nuclear weapon or at least achieving a nuclear "breakout capacity."<sup>27</sup> This threatens Israel's presumed regional nuclear exclusivity, and some Israeli leaders describe it as an existential threat for the country. Second, the political upheaval in several surrounding Arab countries since late 2010—Egypt and Syria in particular. The mobilization of public opinion and the empowerment of Islamist movements have significantly diminished Israeli leaders' confidence in their ability to reach and maintain political and security understandings with Arab state leaders.

Although Israel's conventional military advantages are clear, if one accepts the argument that Israel's fundamental advantages have eroded or are losing relevance, three specific strategic challenges that had once seemed relatively remote may gain in urgency, and are now subjects of concern among Israelis:

- ***Iranian Nuclear Challenge.***<sup>28</sup> Iran's possible achievement of a nuclear weapons capability, either for direct use or to exercise indirect but decisive influence on the region, could worsen security dilemmas. Israeli leaders have asserted that even if Iran does not use, intend to use, or even manufacture a nuclear weapon, its mere capacity to do so will increase its deterrence by raising the potential costs Israel and others would incur by acting against it or its allies (i.e., Hezbollah and various Palestinian militant groups). The resulting intimidation could lead Arab Gulf states in proximity to Iran to adopt more quiescent or pro-Iranian policies or to pursue nuclear capabilities of their own. In turn, this could open the way for increased Iranian influence and/or nuclear proliferation throughout the region. Prime Minister Netanyahu reportedly fears that such

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<sup>26</sup> Israel is not a party to the Nuclear Non-Proliferation Treaty (NPT) and maintains a policy of "nuclear opacity" or *amimut*. A consensus among media and analysts' reports is that Israel possesses an arsenal of 80 to 200 nuclear weapons, although some suggest a higher figure. See, e.g., International Institute for Strategic Studies, *Nuclear programmes in the Middle East: In the shadow of Iran*, May 2008, p. 133.

<sup>27</sup> CRS Report R42443, *Israel: Possible Military Strike Against Iran's Nuclear Facilities*, coordinated by Jim Zanotti.

<sup>28</sup> For more information, see CRS Report R42443, *Israel: Possible Military Strike Against Iran's Nuclear Facilities*, coordinated by Jim Zanotti.



intimidation could lead to a “mass exodus of Jews from an Israel under nuclear threat, weakening the state and compromising the Zionist dream.”<sup>29</sup> Many Israelis and international observers characterize heated rhetoric by Iranian political and military leaders—including several comments since August 2012 that may be anticipating a possible Israeli strike against Iran’s nuclear facilities and Iran’s potential response—as evincing intent or aspiration to destroy the Jewish state. This exacerbates Israeli concerns regarding a potential Iranian nuclear weapons capability.

- ***Islamist-Led or -Influenced Arab States.*** Sunni Islamist-led or -influenced Arab states may actively or tacitly support increased political pressure against Israel, particularly on the Palestinian issue, and/or increased military mobilization at or near its borders. New Egyptian President Muhammad Morsi, a longtime member of the Muslim Brotherhood, personifies these fears. Anti-Israel sentiments are widespread among Arabs. These sentiments are not exclusive to Islamists, but country-specific and region-wide Islamist narratives, political constructs, and media platforms offer possible channels for coordinating their impact. This trend is reflected in a number of ongoing political and constitutional debates in Arab countries where ostensibly democratic political change has empowered Islamist parties and movements.
- ***Instability and Terrorism from Ungoverned Spaces.*** Ungoverned or minimally-governed spaces are proliferating near Israel’s borders in Lebanon, Egypt’s Sinai Peninsula, Libya, and now Syria. These areas attract or could attract terrorists, weapons traffickers, criminal networks, refugees, and migrants, and contribute to trends that appear to threaten Israeli security.

Israeli planners and decision makers have scrambled to determine how to properly address these potential threats by recalibrating resource allocations, military postures, and regional and international political activities. The security discourse in Israel over the past year has been dominated by the question of how to deal politically and operationally with the Iranian nuclear program, significantly influencing the U.S. and international discourse as well. Additionally, Israel is giving increased priority to constructing specially-outfitted security fences along its borders with Egypt, Lebanon, and even Jordan.<sup>30</sup>

These emergent challenges appear to be interrelated. Perhaps the most prominent example concerns the fear Israeli leaders and analysts express regarding how instability in Sinai might gradually undermine Israel’s 1979 peace treaty with Egypt, even though President Morsi has pledged to uphold it and sent a new ambassador to Israel in October 2012 with that message. An August 2012 Sinai-based attack on an Egyptian garrison and Israeli border checkpoints—a year after another deadly Sinai-based attack in Israel—highlighted the threat posed by terrorists with apparent links to Al Qaeda-style Palestinian groups. Additional border incursions have subsequently occurred. In response to the August attack, Israeli leaders publicly oscillated between insistence that Egypt’s military act more forcefully to restore order and counter terrorist threats in Sinai, and alarm that Egyptian responses—especially the deployment of tanks—either

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<sup>29</sup> Leslie Susser, “Spy vs. Spy,” *Jerusalem Report*, March 26, 2012.

<sup>30</sup> “Israel and the walls that surround it,” *aljazeera.com*, May 2, 2012.

directly contradicted the treaty<sup>31</sup> or established a dangerous precedent for its future weakening or abolition.

Other issues may complicate the emergent challenges Israel perceives. As mentioned above, the recent discovery of substantial offshore natural gas deposits in Israeli territorial waters in the eastern Mediterranean presents an unprecedented opportunity for Israel to become not only energy-independent, but also possibly a major energy exporter over the next decade. Nevertheless, Israel's collaboration on this issue with Cyprus, which has also discovered offshore gas deposits, along with their joint attempts to delineate maritime borders and secure their respective energy interests, has intensified existing Israeli disputes with Lebanon and Turkey.

Eastern Mediterranean disputes with Turkey may have particularly serious ramifications for Israel. Their bilateral relations have taken a decidedly negative turn since the 2008-2009 Gaza conflict and the May 2010 Gaza flotilla incident.<sup>32</sup> Israel's recent efforts to strengthen political, military, and economic ties with Cyprus and Greece (two of Turkey's historic rivals) in an apparent effort to supplant its previously close relationship with Turkey<sup>33</sup> might add to tensions rather than promote strategic balance in the region. This could, in turn, reinforce difficulties for Israel in its areas of core concern, especially given Turkey's rising influence in the Middle East and North Africa.

### **Implications for the Palestinian Issue and the Rocket Threat**

Additionally, these challenges could exacerbate issues regarding Israel's ongoing conflict with the Palestinians and the continuing and expanding threat of rocket attacks from the Gaza Strip/Sinai Peninsula (via Hamas and other militant groups) and Lebanon (via Hezbollah). It is not clear how shifting regional dynamics involving Iran's nuclear program, Egypt's transition, Syria's civil war, and areas of increased instability will affect these perennial concerns. Meanwhile, Israel continues to deploy and develop programs to defend against a wide variety of ranges of rockets and missiles.

At the same time, neither Israeli leaders—who harbor deep skepticism about the viability or sustainability of peace agreements in the current regional political climate—nor Fatah or Hamas leaders preoccupied with maintaining their domestic credibility and respective territorial fiefdoms in the West Bank and Gaza appear disposed to make substantive compromises with one another. It is unclear to what extent continued stalemate on the Palestinian issue could worsen regional tensions and anti-Israel sentiment, or motivate greater international action seeking to establish Israeli legal and moral culpability for its treatment of Palestinians. It is also unclear whether and how protests in the West Bank that occurred in September 2012, targeting the Palestinian Authority and its Prime Minister Salam Fayyad over economic issues,<sup>34</sup> might resurface.

Political figures from the Israeli left and center, as well as some U.S. and international commentators, still stress what they characterize as an urgent need for Israel to return to

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<sup>31</sup> There are divergent Israeli and Egyptian accounts over the level of consultation and coordination—required by the treaty—that took place in connection with Egypt's August 2012 post-attack deployments.

<sup>32</sup> For more information, see CRS Report R41368, *Turkey: Background and U.S. Relations*, by Jim Zanotti.

<sup>33</sup> Benny Morris, "Israel's New Allies," *nationalinterest.org*, February 2, 2012.

<sup>34</sup> Joshua Mitnick, "Palestinian Strikes Fan Fears Of a Broader Popular Revolt," *Wall Street Journal*, September 11, 2012.

negotiations. Some analysts assert that Israeli leaders face a dilemma between democracy and demography.<sup>35</sup> Past prime ministers, including Yitzhak Rabin and Ehud Olmert, claimed that coming to an arrangement with the Palestinians on the West Bank and Gaza would be necessary in order to avoid the situation—otherwise probable within the next decade or two based on demographic trends—of Jews ruling as a numerical minority over a numerical majority of Arabs in historic Palestine. The concerns they enunciated focus on possible domestic and international pressure associated with these demographics, and a choice between giving up Jewish primacy or facing intensified regional and international accusations that Jewish rule in the areas of historic Palestine is undemocratic and contrary to the principle of self-determination. Some demographers have disputed the demographic analysis underlying these concerns, and there are indications that at least one member of Netanyahu’s government is not convinced that demography presents Israel with a strategic problem.<sup>36</sup>

Incidents of violence and vandalism involving Israelis (including West Bank settlers) who live and travel in close proximity to Palestinians have begun to include teenage aggressors and victims. These incidents highlight the difficulty Israeli authorities face both in restraining and protecting their citizens, and could contribute to future tensions.

## **Issues Affecting U.S.-Israel Relations**

### **Security Cooperation Issues<sup>37</sup>**

#### **Background**

Strong bilateral relations have fueled and reinforced significant U.S.-Israel cooperation on defense, including military aid, arms sales, joint exercises, and information sharing. It has also included periodic U.S.-Israel governmental and industrial cooperation in developing military technology.

U.S. military aid has helped transform Israel’s armed forces into one of the most technologically sophisticated militaries in the world. U.S. military aid for Israel has been designed to maintain Israel’s “qualitative military edge” (QME) over neighboring militaries, since Israel must rely on better equipment and training to compensate for a manpower deficit in any potential regional conflict. U.S. military aid, a portion of which may be spent on procurement from Israeli defense companies, also has helped Israel build a domestic defense industry, and Israel in turn ranks as one of the top 10 exporters of arms worldwide.

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<sup>35</sup> Akiva Eldar, “Israel’s New Politics and the Fate of Palestine,” *The National Interest*, July/August 2012; Peter Beinart, *The Crisis of Zionism*, New York: Times Books, 2012.

<sup>36</sup> In a June 2012 interview, Moshe Ya’alon, Vice Prime Minister and Minister of Strategic Affairs, said, “We can live like this for another 100 years, too.... The demographic argument is a lie.” Ari Shavit, “IDF chief of staff-turned-vice premier: ‘We are not bluffing.’” *Ha’aretz Magazine*, June 14, 2012.

<sup>37</sup> The Jewish Virtual Library maintains a page that contains hyperlinked documents, speeches, and reports under the heading “U.S.-Israel Relations: Strategic & Military Cooperation,” available at <http://www.jewishvirtuallibrary.org/jsource/US-Israel/strattoc.html>.

On November 30, 1981, then U.S. Secretary of Defense Caspar Weinberger and Israeli Defense Minister Ariel Sharon signed a memorandum of understanding (MOU) establishing a framework for consultation and cooperation to enhance the national security of both countries. In November 1983, the two sides formed a Joint Political Military Group (JPMG) to implement provisions of the MOU. Joint air and sea military exercises began in June 1984, and the United States has constructed facilities to stockpile military equipment in Israel. In 1988, under the terms of Section 517 of the Foreign Assistance Act of 1961, as amended, Israel was designated a “major non-NATO ally,” affording it preferential treatment in bidding for U.S. defense contracts and expanding access to weapons systems at lower prices. In 2001, an annual interagency strategic dialogue, including representatives of diplomatic, defense, and intelligence establishments, was created to discuss long-term issues. This dialogue was halted in 2003 due to bilateral tensions related to Israeli arms sales to China (see “Israeli Arms Sales to Other Countries” below), but resumed in 2005.

On May 6, 1986, Israel and the United States signed an MOU—the contents of which are secret—for Israeli participation in the Strategic Defense Initiative (SDI/“Star Wars”), under which U.S.-Israel co-development of the Arrow ballistic missile defense system has proceeded, as discussed below. In 1998, another U.S.-Israel MOU referred to growing regional threats from ballistic missiles. This MOU said that “In the event of such a threat, the United States Government would consult promptly with the Government of Israel with respect to what support, diplomatic or otherwise, or assistance, it can lend to Israel.”

Security cooperation extends to cooperation in countering terrorism. The Implementing Recommendations of the 9/11 Commission Act of 2007 (P.L. 110-53, enacted on August 3, 2007) recognizes Israel as a potential research partner for the Department of Homeland Security.

Congress and the President enacted the U.S.-Israel Enhanced Security Cooperation Act (P.L. 112-150) in July 2012. The act contains non-binding “sense of Congress” language focusing largely on several possible avenues of cooperation discussed below, including providing Excess Defense Articles; boosting operational, intelligence, and political-military coordination; expediting specific types of arms sales (such as F-35 fighter aircraft, refueling tankers, and “bunker buster” munitions); and additional aid for Israel’s Iron Dome missile defense system and U.S.-Israel cooperative missile defense programs. The act also extended deadlines for Israel to access U.S. military stockpiles. Additionally, the act requires the President to submit a report by January 2013 to the Senate Foreign Relations Committee and House Foreign Affairs Committee on “the status of Israel’s qualitative military edge in light of current trends and instability in the region.” Reports in October 2012 indicated that Senator Lindsey Graham plans to introduce a non-binding resolution before the end of the year that would “call on the United States to support Israel ‘militarily, economically and diplomatically’ if the Jewish state launches a preemptive attack on Iran’s nuclear facilities.”<sup>38</sup>

### **Preserving Israel’s Qualitative Military Edge (QME)**

Since the late 1970s, successive Administrations have argued that U.S. arms sales are an important mechanism for addressing the security concerns of Israel and other regional countries. During this period, some Members of Congress have argued that sales of sophisticated weaponry

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<sup>38</sup> Jonathan Broder and Steven T. Dennis, “New Graham Measure Would Declare U.S. Support for Israel Attack on Iran,” *CQ Today*, October 11, 2012.

to Arab countries may erode Israel's QME over its neighbors. However, successive Administrations have maintained that Arab countries are too dependent on U.S. training, spare parts, and support to be in a position to use sophisticated U.S.-made arms against the United States, Israel, or any other U.S. ally in a sustained campaign. Arab critics routinely charge that Israeli officials exaggerate the threat they pose. Ironically, the threat of a nuclear-armed Iran, though it has partially aligned Israeli and Sunni Arab interests in deterring a shared rival, may be exacerbating Israeli fears of a deteriorated QME, as Saudi Arabia and other Gulf states dramatically increase defense procurements from U.S. and other foreign suppliers.

In 2008, Congress enacted legislation requiring that any proposed U.S. arms sale to "any country in the Middle East other than Israel" must include a notification to Congress with a "determination that the sale or export of such would not adversely affect Israel's qualitative military edge over military threats to Israel."<sup>39</sup> In parallel with this legal requirement, U.S. and Israeli officials continually signal their shared understanding of the U.S. commitment to maintaining Israel's QME. However, the codified definition focuses on preventing arms sales to potential regional Israeli adversaries based on a calculation of conventional military threats. It is unclear whether calls for revisiting this definition or rethinking its implementation may arise in light of the evolving nature of potential regional threats to Israel's security.

Additionally, what might constitute a legally-defined adverse effect to QME is not clarified in U.S. legislation. Since the passage of the 2008 legislation, a bilateral QME working group was created allowing Israel to argue its case against proposed U.S. arms sales in the region.<sup>40</sup> However, absent legislative clarification, the legality of future U.S. arms sales to other regional aid recipients, partners, or allies—including Egypt, Saudi Arabia, Jordan, Lebanon, and Iraq—could become increasingly subject to challenge both by Israeli officials feeling heightened sensitivity to regional threats and by sympathetic U.S. policymakers.

## **U.S. Security Guarantees?**

Although the United States and Israel do not have a mutual defense treaty or agreement that provides formal U.S. security guarantees,<sup>41</sup> successive Administrations have either stated or implied that the United States would help provide for Israel's defense in the context of discussing specific threats, such as from Iran.<sup>42</sup> Both houses of Congress routinely introduce and pass

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<sup>39</sup> §36(h) of the Arms Export Control Act, which contains the "qualitative military edge" requirement, was added by §201(d) of the Naval Vessel Transfer Act of 2008 (P.L. 110-429). The act defines QME as "the ability to counter and defeat any credible conventional military threat from any individual state or possible coalition of states or from non-state actors, while sustaining minimal damages and casualties, through the use of superior military means, possessed in sufficient quantity, including weapons, command, control, communication, intelligence, surveillance, and reconnaissance capabilities that in their technical characteristics are superior in capability to those of such other individual or possible coalition of states or non-state actors."

<sup>40</sup> Barbara Opall-Rome, "Israeli Brass Decry U.S. Arms Sales to Arab States," *Defense News*, January 23, 2012. According to this article, the U.S. side of the working group is led by the Undersecretary of Defense for Policy and Assistant Secretary of State for Political-Military Affairs, while the Israeli side is led by the Defense Ministry's policy chief and the Israel Defense Forces director of planning.

<sup>41</sup> The United States and Israel do, however, have a Mutual Defense Assistance Agreement (TIAS 2675, dated July 23, 1952) in effect regarding the provision of U.S. military equipment to Israel (see "End-Use Monitoring"), and have entered into a range of stand-alone agreements, memoranda of understanding, and other arrangements varying in their formality.

<sup>42</sup> President Obama, in a February 5, 2012, NBC interview, said while responding to questions regarding a possible Israeli military strike against Iranian nuclear facilities: "I will say that we have closer military and intelligence (continued...)"

resolutions supporting Israel's right to defend itself and U.S. efforts to bolster Israel's capacity for self-defense. Some resolutions have included language that could imply support for more active U.S. measures to defend Israel. For example, H.Res. 523 and H.Con.Res. 21, both of which overwhelmingly passed the House (in 2005 and 2007, respectively) and addressed a possible Iranian threat, also both reasserted the "commitment of the United States to defend the right of Israel to exist as a free and democratic state."<sup>43</sup>

A former Israeli deputy national security advisor has written about potential benefits and drawbacks of more formal U.S. security guarantees for Israel, including a possible "nuclear umbrella." A 2006 article that this former official co-authored on a potential Iranian threat said:

Such an arrangement would seem to be a "no-brainer" for Israel. Yet Jerusalem might in fact be quite reluctant to conclude one. This, for three primary reasons, each deeply entrenched in Israel's national security thinking. First, it would fear a loss of freedom of action, due to the contractual requirement to consult on the means of addressing the threat. Second, it would be concerned lest the US demand that Israel divulge and even forego its independent capabilities. And third, it might worry that the US would not live up to its nuclear commitments, much as NATO allies feared during the Cold War.<sup>44</sup>

Perhaps at least partly due to some of the reasons this former Israeli official outlines, U.S. Administrations and Congress have supported Israel's ability to defend itself by embracing and even codifying the concept of helping maintain Israel's "qualitative military edge" (QME) over regional threats, as discussed above.

## U.S. Aid and Arms Sales to Israel

### *In General*

Specific figures and comprehensive detail regarding various aspects of U.S. aid and arms sales to Israel, including conditions that generally allow Israel to use its military aid earlier and more flexibly than other countries, are discussed in CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

Israel is the largest cumulative recipient of U.S. foreign assistance since World War II. From 1976 to 2004, Israel was the largest annual recipient of U.S. foreign assistance, but has since been supplanted—first by Iraq, then by Afghanistan. Since 1985, the United States has provided

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(...continued)

consultation between our two countries than we ever have. And my number one priority continues to be the security of the United States, but also the security of Israel." In a March 2006 speech against the backdrop of Iran's hostile rhetoric toward Israel and pursuit of a nuclear program, President George W. Bush said, "I made it clear, I'll make it clear again, that we will use military might to protect our ally Israel." Seymour M. Hersh, "The Iran Plans," *New Yorker*, April 17, 2006.

<sup>43</sup> Additionally, in response to Iraqi Scud missile attacks on Israel during the 1991 Gulf War, both the House (H.Con.Res. 41) and Senate (S.Con.Res. 4) unanimously passed January 1991 resolutions "reaffirming America's continued commitment" to provide Israel with the means to maintain its freedom and security.

<sup>44</sup> Richard N. Rosecrance and Chuck Freilich, "Confronting Iran: A US Security Guarantee for Israel?," *bitterlemons-international.org*, July 6, 2006. See also Chuck Freilich, *Speaking About the Unspeakable: U.S.-Israeli Dialogue on Iran's Nuclear Program*, Washington Institute for Near East Policy, PolicyFocus #77, December 2007; Malka, op. cit., pp. 84-89.

approximately \$3 billion in grants annually to Israel. In the past, Israel received significant economic assistance, but now almost all U.S. bilateral aid to Israel is in the form of Foreign Military Financing (FMF). U.S. FMF to Israel represents approximately one half of total FMF and 20% of Israel's defense budget. The remaining six years of a 10-year bilateral memorandum of understanding commits the United States to \$3.1 billion annually from FY2013 to FY2018, subject to congressional appropriations. Israel uses approximately 75% of its FMF to purchase arms from the United States, in addition to receiving U.S. Excess Defense Articles (EDA).<sup>45</sup>

Congress routinely provides hundreds of millions of dollars in additional annual assistance for Israeli or joint U.S.-Israeli missile defense programs such as Iron Dome, Arrow, and David's Sling. Israeli reports indicate that initial uses of Iron Dome in 2011 and 2012 have shown a high rate of success—possibly around 80%<sup>46</sup>—in intercepting short-range rockets fired from Gaza. On May 27, 2012 the House of Representatives passed the National Defense Authorization Act for FY2013 (H.R. 4310). If ultimately enacted, the act would authorize up to \$680 million in additional funding for Iron Dome from FY2012 to FY2015.<sup>47</sup> In H.Rept. 112-479 accompanying H.R. 4310, the House Armed Services Committee stated:

The committee also notes that if the full \$680.0 million is used on the program, the total U.S. taxpayer investment in this system will amount to nearly \$900.0 million since fiscal year 2011, yet the United States has no rights to the technology involved. The committee believes the Director [of the U.S. Missile Defense Agency] should ensure, prior to disbursing the authorized \$680 million for Iron Dome, that the United States has appropriate rights to this technology for United States defense purposes, subject to an agreement with the Israeli Missile Defense Organization, and in a manner consistent with prior U.S.-Israeli missile defense cooperation on the Arrow and David's Sling suite of systems. The committee also believes that the Director should explore any opportunity to enter into co-production of the Iron Dome system with Israel, in light of the significant U.S. investment in this system.

Given Iron Dome's apparent track record of success, some U.S. analysts have advocated for co-production or technology sharing because of the system's possible application for forward-deployed U.S. military units and exportability.<sup>48</sup>

The United States also generally provides some annual American Schools and Hospitals Abroad (ASHA) funding and funding to Israel for migration assistance. Loan guarantees, arguably a form of indirect aid, also remain available to Israel through FY2015 under the U.S.-Israel Enhanced Security Cooperation Act (P.L. 112-150).

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<sup>45</sup> In April 1998, the United States designated Israel as a "major non-NATO ally," which qualifies Israel to receive EDA under §516 of the Foreign Assistance Act and §23(a) of the Arms Export Control Act.

<sup>46</sup> Amir Mizroch, "Israel's Rocket-Hunting Ace Got His Start Playing *Warcraft*," *wired.com*, April 6, 2012.

<sup>47</sup> Congress and the President made an initial \$205 million appropriation for the program in FY2011. An additional \$70 million in U.S. funding was reprogrammed for Iron Dome in FY2012 from prior-year Missile Defense Agency funding for various programs. Israel has reportedly spent more than \$200 million on initial stages of Iron Dome's development, procurement, and deployment. Jamie Levin, "Israel's economy will pay heavy price for Iron Dome," *Ha'aretz*, March 23, 2012.

<sup>48</sup> Baker Spring, "U.S.-Israeli Missile Defense Cooperation: Building on the Success of Iron Dome," Heritage Foundation Issue Brief No. 3696, August 6, 2012. At an October 2012 event, an attaché for the Israel Missile Defense Organization indicated that Israel would consider co-production. Remarks by Lt. Col. Merav Davidovits, "Iron Dome: An Examination of the Important Strategic Partnership on Missile Defense Between Israel and the United States," Heritage Foundation, Washington, DC, October 2, 2012. Israel has reportedly made efforts to export Iron Dome to a few Asian countries, including Singapore.

**Table 4. U.S. Bilateral Aid to Israel**  
(historical \$ in millions)

| Year         | Total             | Military Grant  | Economic Grant  | Immig. Grant   | ASHA           | All other       |
|--------------|-------------------|-----------------|-----------------|----------------|----------------|-----------------|
| 1949-1996    | 68,030.9          | 29,014.9        | 23,122.4        | 868.9          | 121.4          | 14,903.3        |
| 1997         | 3,132.1           | 1,800.0         | 1,200.0         | 80.0           | 2.1            | 50.0            |
| 1998         | 3,080.0           | 1,800.0         | 1,200.0         | 80.0           | —              | —               |
| 1999         | 3,010.0           | 1,860.0         | 1,080.0         | 70.0           | —              | —               |
| 2000         | 4,131.85          | 3,120.0         | 949.1           | 60.0           | 2.75           | —               |
| 2001         | 2,876.05          | 1,975.6         | 838.2           | 60.0           | 2.25           | —               |
| 2002         | 2,850.65          | 2,040.0         | 720.0           | 60.0           | 2.65           | 28.0            |
| 2003         | 3,745.15          | 3,086.4         | 596.1           | 59.6           | 3.05           | —               |
| 2004         | 2,687.25          | 2,147.3         | 477.2           | 49.7           | 3.15           | 9.9             |
| 2005         | 2,612.15          | 2,202.2         | 357.0           | 50.0           | 2.95           | —               |
| 2006         | 2,534.5           | 2,257.0         | 237.0           | 40.0           | —              | 0.5             |
| 2007         | 2,503.15          | 2,340.0         | 120.0           | 40.0           | 2.95           | 0.2             |
| 2008         | 2,423.9           | 2,380.0         | 0               | 40.0           | 3.90           | 0               |
| 2009         | 2,583.9           | 2,550.0         | 0               | 30.0           | 3.90           | 0               |
| 2010         | 2,803.8           | 2,775.0         | 0               | 25.0           | 3.80           | 0               |
| 2011         | 3,029.22          | 3,000.0         | 0               | 25.0           | 4.225          | 0               |
| 2012         | 3,095.0           | 3,075.0         | 0               | 20.0           | —              | 0               |
| 2013 Request | 3,115.0           | 3,100.0         | 0               | 15.0           | —              | 0               |
| <b>Total</b> | <b>115,129.57</b> | <b>67,423.4</b> | <b>30,897.0</b> | <b>1,658.2</b> | <b>159.075</b> | <b>14,991.9</b> |

**Notes:** FY2000 military grants include \$1.2 billion for the Wye agreement and \$1.92 billion in annual military aid. For information on U.S. loan guarantees to Israel, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

### *Possible FY2013 Budget Sequestration*<sup>49</sup>

In August 2011, Congress passed the Budget Control Act of 2011 (BCA), P.L. 112-25, intended to reduce the federal deficit by at least \$2.1 trillion over the FY2012-FY2021 period.<sup>50</sup> For FY2013 only, P.L. 112-25 requires a sequestration—an across-the-board cut—of both discretionary and mandatory spending. These cuts are applied to each non-exempt account, and to each program, project, and activity (PPA) within each non-exempt account. This is pursuant to Section 256(k) of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, also known as “Gramm-Rudman-Hollings” after its co-sponsors), as amended by the BCA. For FY2014 to FY2021, the BCA does not mandate across-the-board cuts to discretionary spending. Instead, it

<sup>49</sup> This subsection was co-authored with Jeremy M. Sharp, Specialist in Middle Eastern Affairs.

<sup>50</sup> CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan.



sets annual discretionary spending caps, leaving it to Congress and the Administration to determine funding levels under those caps for various PPAs.<sup>51</sup>

Congress intended Gramm-Rudman-Hollings to apply to foreign aid accounts, including those which funded U.S. aid to Israel. For FY1986 (immediately after the enactment of Gramm-Rudman-Hollings), all foreign aid accounts, including those that provided funding to Israel, were cut by 4.3%. Because Israel's aid is usually disbursed within 30 days of the enactment of the foreign operations appropriations bill, and because Gramm-Rudman-Hollings was passed in December 1985, Israel's government returned a total of \$128.6 million in FY1986 aid—\$51.6 million economic, \$77 million military—to the U.S. Treasury.<sup>52</sup>

On August 7, 2012, President Obama signed into law the Sequestration Transparency Act (P.L. 112-155), which required the Administration to report to Congress within 30 days of enactment on the potential impact of a January 2, 2013, sequestration. In this report, the President was to identify all accounts to be sequestered—discretionary and mandatory, defense and nondefense—and estimate the sequestration percentages to be applied and the amounts necessary to achieve the required savings. Accounts were to be identified at the PPA level.<sup>53</sup> If the BCA (P.L. 112-25) is not amended, the Office of Management and Budget (OMB) has estimated that FY2013 sequestration will require cuts of about 8.2% to most discretionary spending accounts, including foreign aid programs.

OMB issued the report required by P.L. 112-155 on September 14, 2012, noting that its estimates and classifications of whether a program is subject to or exempt from sequestration are “preliminary.” Regarding U.S. aid to Israel, the report identified the FMF account, the main Foreign Operations appropriations account that provides aid to Israel, as “sequesterable.” If sequestered, the \$6.312 billion FMF account would be reduced by a percentage of 8.2%, or approximately \$518 million.<sup>54</sup> Moreover, while OMB provided estimates of the percentage reductions that would occur under sequestration at the account level, it did not provide that information for each PPA, stating that “additional time is necessary to identify, review, and resolve issues associated with providing information at this level of detail.”

Additionally, in the event of an extended continuing resolution (CR) for FY2013 funding<sup>55</sup>, August 2012 CRS correspondence with the Office of Management and Budget (OMB) indicates that full early disbursement of Israel's aid is unlikely because general practices seek to ensure that no CR disbursements impinge on final funding prerogatives. According to an OMB representative:

It is normal practice to disburse some funds to Israel during extended CRs but based on Israel minimum cash flow needs from within the total CR rate available for the overall Foreign Military Financing account. The amount needed varies based on a technical analysis

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<sup>51</sup> The Office of Management and Budget (OMB) is required to sequester any appropriations that exceed these caps.

<sup>52</sup> “Israel May Not Suffer as Much as Other Nations from Painful Budget Cuts,” *Washington Post*, January 15, 1986.

<sup>53</sup> CRS Report R42050, *Budget “Sequestration” and Selected Program Exemptions and Special Rules*, coordinated by Karen Spar

<sup>54</sup> Information available at [http://www.whitehouse.gov/sites/default/files/omb/assets/legislative\\_reports/stareport.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/stareport.pdf).

<sup>55</sup> As of early November 2012, FY2013 appropriations are generally authorized to be made on a pro rata basis at 2012 levels, plus 0.612%, pursuant to the Continuing Appropriations Resolution, 2013 (P.L. 112-175). If not extended or superseded by an Act of Congress, P.L. 112-175 will expire on March 27, 2013.

performed by the Defense Security Cooperation Agency at the request of the Department of State.<sup>56</sup>

Many lawmakers have publicly opposed cuts in aid to Israel, but it is also possible that aid supporters will be reluctant to attract criticism for singling out Israel for exceptional treatment in a situation where most domestic programs face cuts. They might instead advocate “restoring” the amount cut through future appropriations if and when contractionary budgetary trends abate.

Although it is too early to predict which countries or functional accounts may be affected by possible aid reductions, the anticipation of changes to aid levels may spur diplomatic negotiations with Israel over future assistance. For example, it is possible that Israel may seek to compensate for cuts in FMF through greater emphasis on cooperative programs with the United States (such as current programs focused on missile defense). In the mid 1990s, following efforts in Congress to reduce foreign aid funding, Israel proposed (and Congress agreed) to phase out U.S. economic aid to Israel entirely. The growth of the Israeli economy had apparently obviated the need for future U.S. economic grant aid. As Congress phased out economic aid to Israel from FY1999 to FY2008, military aid gradually increased, and subsequent increases in military aid have led to per-year aid totals that are comparable in historical terms to totals from the late 1990s.<sup>57</sup>

## **Israeli-Palestinian Issues**

For historical background on these issues, see CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti.

## **Status of Peace Negotiations and Alternatives**

The internationally mandated land-for-peace framework that has undergirded U.S. policy since the June 1967 Arab-Israeli war presupposes broad Arab acceptance of any final-status Israeli-Palestinian agreement, and, more fundamentally, Arab acceptance of Israel.<sup>58</sup> Israelis insist that their security needs must be met for them to be willing to relinquish West Bank land in a negotiated two-state solution with the Palestinians. Increasing concern among Israeli leaders in the wake of ongoing Arab political change that they cannot count on future positive ties even with states such as Egypt and Jordan has likely led them to perceive greater risks in the possibility of implementing and maintaining a land-for-peace deal.<sup>59</sup> For their part, Palestinian leaders and Arab state rulers may be less likely to take unpopular decisions to please international partners or in the

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<sup>56</sup> CRS email correspondence with OMB representative, August 31, 2012.

<sup>57</sup> CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

<sup>58</sup> Formally, the League of Arab States (Arab League) remains committed to “land for peace,” reflected in the 2002 Arab Peace Initiative. The Arab Peace Initiative offers a comprehensive Arab peace with Israel if Israel were to withdraw fully from the territories it occupied in 1967, agree to the establishment of a Palestinian state with a capital in East Jerusalem, and provide for the “[a]chievement of a just solution to the Palestinian Refugee problem in accordance with UN General Assembly Resolution 194.” The initiative was proposed by then Crown Prince (now King) Abdullah of Saudi Arabia, adopted by the 22-member Arab League (which includes the PLO), and later accepted by the 56-member Organization of the Islamic Conference (now the Organization of Islamic Cooperation) at its 2005 Mecca summit. The text of the initiative is available at <http://www.bitterlemons.org/docs/summit.html>.

<sup>59</sup> Egypt and Jordan were routinely held out as examples showing that even if making peace with Israel was unpopular with the countries’ populations, their autocratic or monarchical leaders could normalize and maintain relations with Israel without significantly losing their capacity or legitimacy to rule.

interests of long-term peace if opposition to Israel and its policies becomes more of an organizing principle for political activism throughout the region.

During the first two years of President Obama's and Prime Minister Netanyahu's time in office, attempts by Palestinians to link a meaningful resumption of negotiations to a freeze in Israeli residential construction beyond the Green Line (the armistice line that divided Israel from the West Bank prior to the 1967 Arab-Israeli war)—claiming inspiration from Obama's public call for this freeze in 2009—were unsuccessful. Netanyahu accepted the idea of a two-state solution in principle, but insisted that any Palestinian state would need to be demilitarized and remain subject to indefinite Israeli control of its airspace, the electromagnetic spectrum used for telecommunications, and the Jordan Valley. President Obama's May 2011 speeches calling for renewed Israeli-Palestinian negotiations focused on the issues of borders and security parameters. Netanyahu complained that Obama's proposal to use the Green Line as the reference point for border negotiations did not properly take into account historical Israeli security concerns regarding defensibility of territory.

Meanwhile, Palestine Liberation Organization (PLO) Chairman Mahmoud Abbas has insisted on a halt to Israeli residential construction beyond the Green Line as a precondition for negotiations, opting to pursue diplomatic initiatives in 2011 and 2012 outside of the negotiating process at the United Nations and U.N.-related agencies. These initiatives aim to increase the international legitimacy of Palestinian claims of statehood in the West Bank and Gaza, and resulted in November 2011 in the admission of "Palestine" to the U.N. Educational, Scientific and Cultural Organization (UNESCO).<sup>60</sup> Past, present, and possible future action in Congress delaying, reducing, or discontinuing various types of aid to the Palestinians<sup>61</sup> may influence Abbas regarding future Palestinian diplomatic strategy,<sup>62</sup> especially given an ongoing PA budgetary crisis. However, some analysts have cautioned that a permanent cutoff of U.S. aid to Palestinians could open the way for regional actors working against U.S. interests to increase their influence on Israeli-Palestinian issues.<sup>63</sup>

Abbas is promoting a potential U.N. General Assembly resolution that would change Palestine's permanent observer status in the U.N. from that of an "entity" to that of a "non-member state." Reports indicate that Abbas has communicated to President Obama that if the resolution is passed, he may be willing to resume negotiations with Israel without first demanding a halt to Israeli settlement building. A U.N. status upgrade could make it easier for the Palestinians to bring claims and propose action in the International Criminal Court (ICC) and other forums

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<sup>60</sup> However, the PLO's fall 2011 application to obtain membership in the United Nations was unsuccessful. U.N. Security Council, "Report of the Committee on the Admission of New Members concerning the application of Palestine for admission to membership in the United Nations," S/2011/705, November 11, 2011.

<sup>61</sup> As of September 2012, the Department of State reported that informal congressional holds were delaying the transfer to the PA of \$200 million in already-appropriated FY2012 funds. Transcript of Department of State Daily Press Briefing, September 13, 2012. See also CRS Report RS22967, *U.S. Foreign Aid to the Palestinians*, by Jim Zanotti.

<sup>62</sup> Additionally, at various times in 2011 in connection with PLO U.N.-related initiatives, Israel withheld or threatened to withhold transfer payments that constitute over half of the PA's budget. According to the *Financial Times*, "Under the 1994 Paris protocol, the Israeli authorities are responsible for collecting Palestinian tax and customs at ports and border crossings. They are supposed to be transferred directly to the PA, but Israel has in the past repeatedly refused to do so in response to political events." Tobias Buck, "Israel freezes Palestinian funds," *Financial Times*, May 1, 2011.

<sup>63</sup> Testimony of Jonathan Schanzer, House Foreign Affairs Committee, Subcommittee on the Middle East and South Asia, July 10, 2012: "Of course, the Muslim world is notorious for not making good on its pledges to the Palestinians for aid. But, nevertheless, if we stepped out, we certainly would lose our leverage and potentially yield it to other actors that are working against U.S. interests, and I would warn against it."

against what many Palestinians perceive to be Israeli violations of various international laws and norms regarding the treatment of people and property in the West Bank and Gaza.<sup>64</sup> Most analysts expect the resolution to be brought to a vote before the end of 2012, and predict that it will garner the simple majority it needs to pass, even though its text has reportedly not yet been finalized. Unlike resolutions before the U.N. Security Council, it would not be subject to a U.S. veto.

For many Israeli and American observers who assert that the U.N. has had a longtime anti-Israel, pro-Palestinian institutional bias, the PLO U.N. initiatives of 2011 and 2012 are emblematic of a larger effort by Palestinians<sup>65</sup> and their supporters to “delegitimize” Israel, and to an increasing reservoir of international anti-Israel and anti-Semitic feeling.<sup>66</sup> While the United Nations and other international organizations have become more regular forums for core issues of Israel-Palestinian dispute such as settlements, Palestinian statehood, and borders; Congress and the U.S. political scene have increasingly focused on other core issues, namely Jerusalem (discussed below) and Palestinian refugees.<sup>67</sup>

The United States and the other members of the international Quartet (the European Union, the United Nations Secretary-General’s office, and Russia) continue to advocate Israeli-Palestinian talks aimed at a peace agreement. Meanwhile, reports routinely speculate about the possibility of “unity,” or, more precisely, a power-sharing PA governance arrangement between Fatah and Hamas for the West Bank and Gaza with a pathway to presidential and legislative elections and a greater role for Hamas in the PLO. If Hamas involvement in the PLO and PA were to increase, Israel would face more complicated choices about whether and how to deal with the Palestinians. Thus far, Israel and the Quartet have rejected the possibility of dealing with a Palestinian entity that involves Hamas unless the entity’s leaders clearly recognize Israel’s right to exist, reject violence, and agree to honor past Israeli-Palestinian agreements.

Hamas’s future direction is unclear. Unrest and conflict in Syria has reportedly led to a weakening of—but not a complete break in—its ties with Iran, as Hamas’s external leadership has left its Damascus headquarters and is emphasizing its Muslim Brotherhood roots.<sup>68</sup> The implications of

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<sup>64</sup> Jodi Rudoren, “Year After Effort at U.N., New Aim for Palestinians,” *New York Times*, September 20, 2012. An April 2012 decision by the Office of the Chief Prosecutor of the ICC implied that a General Assembly resolution identifying “Palestine” as a state would likely be a sufficient justification for it to obtain standing to bring claims before the ICC. Tariq Ahmad, “International Criminal Court: Prosecutor Declares It Lacks Jurisdiction to Determine Whether Palestine Is a State,” Law Library of Congress Global Legal Monitor, April 13, 2012.

<sup>65</sup> Palestinian recourse to international action to pressure Israel also includes an international campaign supported by several Palestinian non-governmental organizations to get various private organizations (especially in the West and Latin America) to join a BDS (boycott, divestment, sanctions) movement against Israel. Kirk Semple and Gersh Kuntzman, “Food Co-op Rejects Effort to Boycott Israeli-Made Products,” *New York Times*, March 27, 2012.

<sup>66</sup> Secretary of Defense Leon Panetta said in December 2011, “Indeed, there is an international campaign underway to isolate Israel. President Obama has stood steadfastly in the way of that effort, especially in the United Nations.” Transcript of remarks by Secretary Panetta at Saban Forum, Brookings Institution, Washington, DC, December 2, 2011, available at <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4937>.

<sup>67</sup> See CRS Report RS22967, *U.S. Foreign Aid to the Palestinians*, by Jim Zanotti, for a discussion of a possible congressional reporting requirement for the State Department (initially attributed to Senator Mark Kirk) regarding the identification of refugees by the U.N. Relief and Works Agency for Palestine Refugees (UNRWA), and the recent congressional commissioning of a Government Accountability Office report on the “ability of the Palestinian Authority to assume responsibility for any of the programs and activities conducted by” UNRWA in the West Bank.

<sup>68</sup> “Hamas ‘to renounce’ armed resistance to Israel,” *Jane’s Intelligence Weekly*, December 15, 2011. Hamas’s external leaders have since reportedly relocated to Qatar and Egypt, though it is unclear to what extent either country might serve as a permanent external office. A December 2011 meeting of Hamas’s governing Shura Council took place in Sudan.

reported power struggles among various nodes of Hamas's leadership remain unclear for Hamas's political and military stances and the threats it and other Gaza-based armed groups may pose to Israel.<sup>69</sup>

As a result, implications are also unclear for West Bank-Gaza political unity, and by extension, Israeli-Palestinian negotiations. Lack of Fatah-Hamas accommodation could fuel further cultural and political separation between Palestinians,<sup>70</sup> potentially worsening the credibility problems Mahmoud Abbas already experiences in presenting himself as the sole spokesman for the national movement. The political rise of the Muslim Brotherhood in Egypt and geographical and commercial links between Gaza, Egypt's Sinai Peninsula, and other outside actors such as Qatar<sup>71</sup> could exacerbate this separation, perhaps partly due to the strict limits Israel places on the flow of people and goods at its borders with Gaza and from Gaza's Mediterranean coast.<sup>72</sup> Holding separate elections in the West Bank could also exacerbate this separation.<sup>73</sup> Such developments may encourage Israelis who assert that Israel has not borne legal responsibility for Gaza or its residents since its withdrawal of military personnel and soldiers in 2005. A U.S.-based Israeli analyst has written that "in divesting itself of just 1.5 percent of the land [of British Mandate-era Palestine], Israel significantly recalibrated the so-called 'demographic equation' (the ratio of Jews to Arabs in the area under its control)."<sup>74</sup>

## Jerusalem

Israel annexed East Jerusalem (which includes the walled Old City, with its Temple Mount/Haram al Sharif and Western Wall, and most of the surrounding "historic basin") and some of its immediate West Bank vicinity in 1967—shortly after occupying these areas militarily in the June 1967 Arab-Israeli war. In doing so, Israel joined these newly-occupied areas,<sup>75</sup> which featured a predominantly Arab population, to the predominantly Jewish western part of the city it had controlled since 1948. Israel proclaimed this entire area to be Israel's eternal, undivided capital.<sup>76</sup> Polls indicate that a large majority of Israelis believe that a united Jerusalem is their capital and support Jewish residential construction of neighborhoods (the Israeli term) or settlements (the general internationally-used term) within that part of Jerusalem that is east of the

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<sup>69</sup> CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti.

<sup>70</sup> This separation may be partially explained by the lack of a territorial link between the two Palestinian territories, and partially explained by geography and recent history linking the Gaza Strip with Egypt and the West Bank with Jordan.

<sup>71</sup> Qatar's emir visited Gaza in October to pledge \$400 million in assistance for building and road infrastructure projects. Qatar will reportedly use Egypt's Rafah crossing to transport construction materials into the territory. "Qatar to channel goods via Egypt to rebuild Gaza: officials," *alarabiya.net*, October 20, 2012.

<sup>72</sup> Nicolas Pelham, "Gaza's Tunnel Phenomenon: The Unintended Dynamics of Israel's Siege," *Journal of Palestine Studies*, vol. XLI, no. 4, Summer 2012.

<sup>73</sup> Local elections took place in the West Bank without Hamas's participation in October 2012, and no parallel elections took place in Gaza. Some reports speculate that West Bank-only national elections could ultimately occur. Joshua Mitnick, "Palestinian Vote Stands to Deepen Split—West Bank Only to Go to Polls as Hamas Blocks Gaza Participation," *Wall Street Journal*, October 19, 2012.

<sup>74</sup> Daniel Levy, "Seven Lean Years of Peacemaking," *New York Times*, September 11, 2012.

<sup>75</sup> Jordan had occupied these areas militarily since 1948, and unilaterally annexed them and the entire West Bank in 1950. It only ceded its claims to the Palestine Liberation Organization (PLO) in 1988.

<sup>76</sup> In 1980, under the first Likud Party government, the Israeli Knesset passed the Basic Law: Jerusalem—Capital of Israel, which declares "Jerusalem, complete and united, is the capital of Israel." See <http://www.mfa.gov.il> for the complete text of the Basic Law. Israel had first declared Jerusalem to be its capital in 1950.

Green Line and within the Israeli-drawn municipal borders.<sup>77</sup> Israel's annexation of areas beyond the Green Line is generally not internationally recognized.

Successive U.S. Administrations of both political parties since 1948 have maintained that the fate of Jerusalem is to be decided by negotiations and have discouraged the parties from taking actions that could prejudice the final outcome of those negotiations. Moreover, the Palestinians envisage East Jerusalem as the capital of their future state. However, the House of Representatives passed H.Con.Res. 60 in June 1997, and the Senate passed S.Con.Res. 21 in May 1997. Both resolutions called on the Clinton Administration to affirm that Jerusalem must remain the undivided capital of Israel.

A related issue is the possible future relocation of the U.S. embassy from Tel Aviv to Jerusalem. Proponents argue that Israel is the only country where a U.S. embassy is not in the capital identified by the host country, that Israel's claim to West Jerusalem—proposed site of an embassy—is unquestioned, and/or that Palestinians must be disabused of their hope for a capital in Jerusalem. Opponents say a move would undermine the peace process and U.S. credibility with Palestinians and in the Muslim world, and could prejudge the final status of the city. The Jerusalem Embassy Act of 1995 (P.L. 104-45) provided for the embassy's relocation by May 31, 1999, but granted the President authority, in the national security interest, to suspend limitations on State Department expenditures that would be imposed if the embassy did not open. Presidents Clinton, Bush, and Obama have consistently suspended these spending limitations, and the embassy's status has remained unchanged.

The State Department Authorization Act for FY2002-FY2003 (P.L. 107-228) urged the President to begin relocating the U.S. embassy "immediately." The act also sought to (1) prohibit the use of appropriated funds for the operation of U.S. diplomatic facilities in Jerusalem unless such facilities were overseen by the U.S. ambassador to Israel; and (2) allow Israel to be recorded as the place of birth of U.S. citizens born in Jerusalem. When signing the act into law, President Bush wrote in an accompanying "signing statement" that the various provisions on Jerusalem would, "if construed as mandatory ... impermissibly interfere with the president's constitutional authority to conduct the nation's foreign affairs." The State Department declared, "our view of Jerusalem is unchanged. Jerusalem is a permanent status issue to be negotiated between the parties." The case of *Zivotofsky v. Clinton*,<sup>78</sup> remanded by the Supreme Court in March 2012 for further action in lower federal courts, could decide or have implications for Congress's constitutional authority on questions relating to the status of Jerusalem and could influence its future ability to direct the executive branch in its conduct of foreign affairs more broadly.

Bills such as H.R. 1006, The Jerusalem Embassy and Recognition Act, from the 112<sup>th</sup> Congress, have been periodically introduced. If such a bill were to be enacted, it would seek to compel the embassy's relocation by removing the President's authority to suspend the State Department expenditure limitations cited above. The status of Jerusalem became enmeshed in discourse surrounding the 2012 U.S. presidential campaign.<sup>79</sup>

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<sup>77</sup> "Poll: Most Israelis Support East Jerusalem Construction," *Ynetnews.com*, March 22, 2010.

<sup>78</sup> *Zivotofsky v. Clinton*, U.S. Supreme Court Docket No. 10-699, March 26, 2012. The case involves a U.S. citizen who was born in Jerusalem, and whose parents are suing on his behalf to have the State Department reflect Israel as his birthplace on his passport.

<sup>79</sup> The 2012 Democratic and Republican party platforms attracted attention for differences on Jerusalem from their 2008 versions, though the 2012 Democratic platform was ultimately changed to conform with the 2008 platform.

## Settlements

Israel has approximately 139 residential communities (known by most international actors as “settlements”), approximately 105 settlement outposts unauthorized under Israeli law, and other civilian land-use sites in the West Bank. Israel also has 29 neighborhoods or settlements in East Jerusalem. Approximately 300,000 Israelis live in West Bank settlements, with roughly 200,000 more in East Jerusalem.<sup>80</sup> All of these residential communities are located in areas that the Palestinians view as part of their future state. The first settlements were constructed following the 1967 war, and were initially justified as directly associated with Israel’s military occupation of the West Bank. Major residential settlement building began in the late 1970s with the advent of the pro-settler Gush Emunim (“Bloc of the Faithful”) movement and the 1977 electoral victory of Menachem Begin and the Likud Party. Existing settlements were expanded and new ones established throughout the 1990s and 2000s despite the advent of the Madrid-Oslo peace process with the Palestinians. Israelis who defend the settlements’ legitimacy generally use a combination of legal, historical, strategic, nationalistic, or religious justifications.<sup>81</sup>

The international community generally considers Israeli construction on territory beyond the Green Line to be illegal.<sup>82</sup> Israel retains military control over the West Bank and has largely completed a separation barrier<sup>83</sup> on West Bank territory that in some places corresponds with the Green Line but in others goes significantly beyond it. The barrier is intended to separate Israelis and Palestinians and prevent terrorists from entering Israel. Palestinians object to the barrier being built on their territory because it cuts Palestinians off from East Jerusalem and, in some places, bisects their landholdings and communities. It also is seen by many as an Israeli device to unilaterally determine borders between Israel and a future Palestinian state.

U.S. policy on settlements has varied since 1967. Until the 1980s, multiple Administrations either stated or implied that settlements were “contrary to international law,” with President Carter’s Secretary of State Cyrus Vance stating explicitly that settlements were “illegal” in 1980.<sup>84</sup> President Reagan later stated that settlements were “not illegal,” but “ill-advised” and “unnecessarily provocative.” From that point on the executive branch has generally refrained from pronouncements on the settlements’ legality.<sup>85</sup> A common U.S. stance during the peace process has been that settlements are an “obstacle to peace.”

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<sup>80</sup> These figures and additional data on settlements and outposts are available at [http://www.fmep.org/settlement\\_info](http://www.fmep.org/settlement_info).

<sup>81</sup> For more information on the history of the settlements and their impact on Israeli society, see Idith Zertal and Akiva Eldar, *Lords of the Land: The War for Israel’s Settlements in the Occupied Territories, 1967-2007*, New York: Nation Books, 2007; Gershom Gorenberg, *The Accidental Empire: Israel and the Birth of the Settlements, 1967-1977*, New York: Times Books, 2006.

<sup>82</sup> The most cited international law pertaining to Israeli settlements is the Fourth Geneva Convention, Part III, Section III, Article 49 *Relative to the Protection of Civilian Persons in Time of War*, August 12, 1949, which states in its last sentence, “The Occupying Power shall not deport or transfer parts of its own civilian population into the territory it occupies.” Israel insists that the West Bank does not fall under the international law definition of “occupied territory,” but is rather “disputed territory” because the previous occupying power (Jordan) did not have an internationally-recognized claim to it, and given the demise of the Ottoman Empire at the end of World War I and the end of the British Mandate in 1948, no international actor has superior legal claim to it.

<sup>83</sup> Israelis and Palestinians generally use very different terminology to describe the barrier. Many Israelis call it the “security barrier” or “security fence,” while most Palestinians refer to it as the “wall” or “apartheid wall.”

<sup>84</sup> Daniel Kurtzer, “Do Settlements Matter? An American Perspective,” *Middle East Policy*, vol. 16, issue 3, Fall 2009.

<sup>85</sup> Nicholas Rostow, “Are the Settlements Illegal?,” *The American Interest*, March/April 2010.

An April 2004 letter from President George W. Bush to then Israeli Prime Minister Ariel Sharon explicitly acknowledged that “in light of new realities on the ground, including already existing major Israeli populations (sic) centers, it is unrealistic to expect that the outcome of final status negotiations will be a full and complete return to the armistice lines of 1949.” Partly because of such statements from U.S. policymakers, Arab critics routinely charge that U.S. support of Israel indirectly supports settlement activity.

Upon taking office, as part of its attempts to restart the peace process between Israelis and Palestinians, the Obama Administration called for Israel to totally freeze all settlement activity, including in East Jerusalem. In his speech in Cairo in May 2009, President Obama said, “The United States does not accept the legitimacy of continued Israeli settlements. This construction violates previous agreements and undermines efforts to achieve peace. It is time for these settlements to stop.”<sup>86</sup> PLO leaders followed suit and made a settlement freeze a precondition for their return to the peace talks, which Israel has rejected, as discussed above. In February 2011, the United States vetoed a draft U.N. Security Council resolution that would have characterized Israeli settlements in the West Bank and East Jerusalem as illegal. All other 14 members of the Council, including the United Kingdom, France, and Germany, voted for the draft resolution. Susan Rice, the U.S. Permanent Representative to the United Nations, clarified that the Administration still opposed settlement construction as illegitimate and at cross-purposes with peace efforts.<sup>87</sup>

Given the structure of Israeli society and politics, it may be difficult to impose an external restraint on settlement activity. Settlers affect the political and diplomatic calculus through the following means:

- (1) influence over key voting blocs in Israel’s coalition-based parliamentary system (although they do not all share the same ideology or interests, settlers constitute about 6% of the Israeli population);
- (2) renegade actions to foment public protest and even violence;<sup>88</sup> and
- (3) what they represent for some symbolically, emotionally, and even spiritually as guardians of the last frontier for a country whose founding and initial survival depended on pioneering spirit in the face of adversity.

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<sup>86</sup> U.S. and Israeli leaders publicly differed on whether Obama’s expectations of Israel contradicted statements that the George W. Bush Administration had made. Some Israeli officials and former Bush Administration officials said that the United States and Israel had reached an unwritten understanding that “Israel could add homes in settlements it expected to keep [once a final resolution with the Palestinians was reached], as long as the construction was dictated by market demand, not subsidies.” Glenn Kessler and Howard Schneider, “U.S. Presses Israel to End Expansion,” *Washington Post*, May 24, 2009. This article quotes former Bush Administration deputy national security advisor Elliott Abrams as saying that the United States and Israel reached “something of an understanding.” The accounts of former Bush Administration officials diverge in their characterization of U.S.-Israel talks on the subject, but the Obama Administration has insisted that if understandings ever existed, it is not bound by them. Ethan Bronner, “Israelis Say Bush Agreed to West Bank Growth,” *New York Times*, June 3, 2009.

<sup>87</sup> “United States vetoes Security Council resolution on Israeli settlements,” UN News Centre, February 18, 2011.

<sup>88</sup> See Mark Weiss, “Settlers Destroy Trees on West Bank,” *Irish Times*, July 22, 2009: “Militant settlers, who often act independently, in defiance of the official settler leadership, confirmed that a ‘price tag’ policy exists under which revenge attacks will be carried out against Palestinians every time the government acts to remove outposts.”



The Netanyahu government's periodic announcement of new plans for settlement construction, possible consideration of legalizing some settlement outposts, approval of subsidies and loans for some settlers, and repeated insistence that outside actors will not dictate Israeli policy on this subject appears to demonstrate the government's sensitivity to these domestic concerns.<sup>89</sup> Some Israelis express that the demand to provide security to settlers and their infrastructure and transportation links to Israel could perpetuate Israeli military control in the West Bank even if other rationales for maintaining such control eventually recede or disappear. Protecting settlers is made more difficult and manpower-intensive by some settlers' provocations of Palestinian West Bank residents and Israeli military authorities. The government complied in 2012 with rulings by Israel's Supreme Court requiring it to dismantle two outposts. It has sought to placate settler opposition to dismantlement by relocating the displaced outpost residents, and in some cases their actual housing units, within the boundaries of settlements permitted under Israeli law. Prime Minister Netanyahu said following the outposts' dismantlement, "We are honoring the court's rulings, and we are also strengthening settlement. There is no contradiction between the two."<sup>90</sup>

## Sensitive Defense Technology and Intelligence Issues

Arms sales, information sharing, and co-development of technology between the United States and Israel raises questions about what Israel might do with capabilities or information it acquires. The transfer by sale of U.S. defense articles or services to Israel and all other foreign countries is authorized subject to the provisions of the Arms Export Control Act (AECA) (see §40A of P.L. 90-629, as amended)<sup>91</sup> and the regulations promulgated to implement it. Section 3 of the AECA stipulates that in order to remain eligible to purchase U.S. defense articles, training, and services, foreign governments must agree not to use purchased items and/or training for purposes other than those permitted by the act, or to transfer them to third-party countries (except under certain specifically enunciated conditions), without the prior consent of the President.

## Israeli Arms Sales to Other Countries

Israel is a major arms exporter—with India, China, and Russia among its customers or past customers.<sup>92</sup> The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China.<sup>93</sup> As of 2005, Israel was reportedly China's second major arms supplier, after Russia.<sup>94</sup> In 2003, Israel's agreement to

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<sup>89</sup> Joel Greenberg, "Netanyahu strengthens his base within Likud," *Washington Post*, February 2, 2011.

<sup>90</sup> Joel Greenberg, "Israeli settlers evacuated from West Bank outpost following court order," *Washington Post*, September 2, 2012.

<sup>91</sup> 22 U.S.C. §2785.

<sup>92</sup> Other customers for Israeli arms include Germany, Spain, France, Canada, Australia, Turkey, Singapore, Brazil, Italy, the Netherlands, Poland, Finland, Azerbaijan, and Romania. Israel is also reportedly seeking to expand arms exports to Latin America.

<sup>93</sup> Office of Naval Intelligence, *Worldwide Challenges to Naval Strike Warfare*, 1996. The 1997 edition of this report said that the design for China's J-10 fighter (also known as the F-10—the designation used in the report) "had been undertaken with substantial direct assistance, primarily from Israel and Russia, and with indirect assistance through access to U.S. technologies." ONI, *Worldwide Challenges to Naval Strike Warfare*, 1997. See also Robert Hewson, "Chinese J-10 'benefited from the Lavi project,'" *Jane's Defence Weekly*, May 16, 2008; Duncan L. Clarke and Robert J. Johnston, "U.S. Dual-Use Exports to China, Chinese Behavior, and the Israel Factor: Effective Controls?" *Asian Survey*, Vol. 39, No. 2, March-April 1999. The Lavi fighter (roughly comparable to the U.S. F-16) was developed in Israel during the 1980s with approximately \$1.5 billion in U.S. assistance, but did not get past the prototype stage.

<sup>94</sup> Ron Kampeas, "Israel-U.S. Dispute on Arms Sales to China Threatens to Snowball," *Jewish Telegraphic Agency*, (continued...)

upgrade radar-seeking Harpy Killer drones that it sold to China in 1999 dismayed the Department of Defense (DOD). DOD retaliated by suspending its joint strategic dialogue with Israel and its technological cooperation with the Israel Air Force on the F-35 Joint Strike Fighter (JSF) aircraft and several other programs, among other measures.

On August 17, 2005, DOD and the Israeli Ministry of Defense issued a joint press statement reporting that they had signed an understanding “designed to remedy problems of the past that seriously affected the technology security relationship and to restore confidence in the technology security area.”<sup>95</sup> Thereafter, the U.S.-Israel joint strategic dialogue resumed. Sources have reported that this understanding has given the United States de facto veto power over Israeli third-party arms sales that the United States deems harmful to its national security interests.<sup>96</sup>

In late 2008, the United States reportedly refused to approve an Israeli sale to Russia of up to 100 Heron drones that contain U.S. parts, and the Israeli Defense Exports Control Directorate (DECD) was said to have heightened scrutiny of all defense exports to Russia.<sup>97</sup> In 2010, the United States resumed discussions with Israel over a possible Heron sale to Russia. Reports indicate that Russia’s suspension of a sale of S-300 surface-to-air missile systems to Iran may have revived the Heron deal, but that the Herons are to be used only for homeland security purposes.<sup>98</sup>

India is presently the largest purchaser of Israeli arms and Israel is the second largest arms supplier for India. India’s first acquisition from Israel was of early warning radars in 2004. In addition to systems focused on early warning and tactical defense, Israel has also reportedly supplied India with avionics systems to upgrade Indian jet fighters. Additionally, there have been reports of approximately \$1.6 billion in Israeli aircraft and missile exports to Azerbaijan since 2011.

## End-Use Monitoring

Sales of U.S. defense articles and services to Israel are made subject to the terms of both the AECA and the July 23, 1952 Mutual Defense Assistance Agreement between the United States and Israel (TIAS 2675). The 1952 agreement states:

The Government of Israel assures the United States Government that such equipment, materials, or services as may be acquired from the United States ... are required for and will

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(...continued)

June 8, 2005, citing a U.S.-China Economic and Security Review 2004 report.

<sup>95</sup> “U.S. Israel Agree to Consult on Future Israeli Weapons Sales -Nations Affirm Joint Commitment to Address Global Security Challenges,” U.S. State Department Press Release, August 17, 2005.

<sup>96</sup> “U.S. OKs Israel-China Spy Sat Deal,” *DefenseNews.com*, October 12, 2007. This article quotes a U.S. official as saying, “We don’t officially acknowledge our supervisory role or our de facto veto right over their exports.... It’s a matter of courtesy to our Israeli friends, who are very serious about their sovereignty and in guarding their reputation on the world market.” <http://www.crs.gov/Pages/Reports.aspx?Source=search&ProdCode=RL33222 - fn49>

<sup>97</sup> Nadav Ze’evi, “Israel Holds Up Sale of UAV’s to Russia under US Pressure,” *Ma’ariv*, March 5, 2009, BBC Monitoring Middle East, March 6, 2009.

<sup>98</sup> The source for the material in most of this paragraph is “Procurement, Russian Federation,” *Jane’s Sentinel Security Assessment – Russia and the CIS*, January 29, 2012. In November 2010, Israel delivered 12 shorter-range drones to Russia in connection with a 2009 agreement reached to address Russia’s procurement priorities in the wake of its 2008 war with Georgia. *Ibid.* Georgia had used Israeli-made drones in the war.

be used solely to maintain its internal security, its legitimate self-defense ... and that it will not undertake any act of aggression against any other state.

Past Administrations have acknowledged that some Israeli uses of U.S. defense articles may have gone beyond the requirements under the AECA and the 1952 agreement that Israel use such articles for self-defense and internal security purposes. These past Administrations have transmitted reports to Congress stating that “substantial violations” of agreements between the United States and Israel regarding arms sales “may have occurred.” The most recent report of this type was transmitted in January 2007 in relation to concerns about Israel’s use of U.S.-supplied cluster munitions during military operations against Hezbollah in Lebanon during 2006.<sup>99</sup> Other examples include findings issued in 1978, 1979, and 1982 with regard to Israel’s military operations in Lebanon and Israel’s air strike on Iraq’s nuclear reactor complex at Osirak in 1981. The Reagan Administration suspended the delivery of cluster munitions to Israel from 1982 to 1988 based on concerns about their use in Lebanon. The Reagan Administration also briefly delayed a scheduled shipment of F-15 and F-16 aircraft to Israel following Israel’s 1981 strike on Iraq. If Israel takes future action with U.S. defense articles to preempt perceived security threats, allegations of AECA violations could follow.<sup>100</sup>

### **Espionage-Related Cases**

In the past 25 years, there have been at least three cases in which U.S. government employees were convicted of disclosing classified information to Israel or of conspiracy to act as an Israeli agent. The most prominent is that of Jonathan Pollard, who pled guilty in 1986 with his then wife Anne to selling classified documents to Israel. Israel granted Pollard—who is serving a life sentence in U.S. federal prison—citizenship in 1996 and, in 1998, acknowledged that Pollard had been its agent. Prime Minister Netanyahu and several of his predecessors have unsuccessfully petitioned various Presidents to pardon Pollard.<sup>101</sup>

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<sup>99</sup> Sean McCormack, U.S. Department of State Spokesman, Daily Press Briefing, Washington, DC, January 29, 2007. The Consolidated Appropriations Act, 2008 (P.L. 110-161) significantly restricted the export of U.S.-manufactured cluster munitions. Restrictions on cluster munitions exports have been carried forward to apply to appropriations in subsequent years as well. §7054(b) of the Consolidated Appropriations Act, 2012 (P.L. 112-74) provides: “No military assistance shall be furnished for cluster munitions, no defense export license for cluster munitions may be issued, and no cluster munitions or cluster munitions technology shall be sold or transferred, unless—(1) the submunitions of the cluster munitions, after arming, do not result in more than 1 percent unexploded ordnance across the range of intended operational environments; and (2) the agreement applicable to the assistance, transfer, or sale of such cluster munitions or cluster munitions technology specifies that the cluster munitions will only be used against clearly defined military targets and will not be used where civilians are known to be present or in areas normally inhabited by civilians.” Since 2008, Israel has been acquiring domestically-manufactured cluster munitions.

<sup>100</sup> Some Palestinian groups and other Arab and international governments, along with at least one Member of Congress, have characterized Israeli military operations against Palestinians (such as Israel’s 2008-2009 Operation Cast Lead, which was directed against Hamas in the Gaza Strip) as acts of aggression. The Senate and the House overwhelmingly passed resolutions during the week of January 5, 2009 in connection with Operation Cast Lead that supported Israel’s right to defend itself (S.Res. 10 and H.Res. 34). Representative Dennis Kucinich, however, submitted a letter to then Secretary of State Condoleezza Rice arguing that “Israel’s most recent attacks neither further internal security nor do they constitute ‘legitimate’ acts of self-defense.” Office of Representative Dennis J. Kucinich, “Press Release: Israel May Be in Violation of Arms Export Control Act,” January 6, 2009.

<sup>101</sup> The second case is that of Department of Defense analyst Lawrence Franklin, who pled guilty in 2006 to disclosing classified information to an Israeli diplomat and to two lobbyists from the American Israel Public Affairs Committee (AIPAC). The third case is that of Ben-Ami Kadish, who had worked at the U.S. Army’s Armament Research, Development, and Engineering Center in Dover, New Jersey. Kadish pled guilty in 2009 to one count of conspiracy to act as an unregistered agent of Israel.

## Nuclear Non-Proliferation

A consensus among media and expert reports is that Israel possesses an arsenal of 80 to 200 nuclear weapons, although some suggest a higher figure.<sup>102</sup> The United States has countenanced Israel's nuclear ambiguity since September 1969, when Israeli Prime Minister Golda Meir and U.S. President Richard Nixon reportedly reached an accord whereby both sides agreed never to acknowledge Israel's nuclear arsenal in public.<sup>103</sup>

Israel's ambiguous nuclear status is viewed by some members of the international community as an obstacle to advancing non-proliferation objectives. The 1995 Non-Proliferation Treaty (NPT) Review Conference adopted a resolution that called for "all States in the Middle East to take practical steps" toward establishing "an effectively verifiable Middle East zone free of weapons of mass destruction, nuclear, chemical and biological, and their delivery systems". Israel is not an NPT state. The Obama Administration has stated its support for the nuclear-weapon-free zone. Ambassador Susan Burk, Special Representative of the President for Nuclear Non-Proliferation, told a Washington audience in March 2010 that the United States supports the 1995 resolution and is "working very hard with partners in the region and elsewhere to try to see if we can come up with some concrete measures that would begin to implement this resolution or at least move it forward in some direction."<sup>104</sup>

Israel has expressed support for a WMD-free zone, but has asserted that Middle Eastern countries should resolve other regional security issues and reconcile themselves to Israel's existence before negotiating such a zone. Sha'ul Horev, Director General of Israel's Atomic Energy Commission, explained the government's position September 2009:

It is our vision and policy, to establish the Middle East as a mutually verifiable zone free of weapons of mass destruction and their delivery systems. We have always emphasized, that such a process, through direct negotiations, should begin with confidence building measures. They should be followed by mutual recognition, reconciliation, and peaceful relations. Consequently conventional and non-conventional arms control measures will emerge ... In our view, progress towards realizing this vision cannot be made without a fundamental change in regional circumstances, including a significant transformation in the attitude of states in the region towards Israel.<sup>105</sup>

Other countries argue the reverse—that establishing a Middle East WMD-free zone is necessary to improve the prospects for settling existing regional disputes.<sup>106</sup>

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<sup>102</sup> See footnote 26.

<sup>103</sup> Eli Lake, "Secret U.S.-Israel Nuclear Accord in Jeopardy," *Washington Times*, May 6, 2009.

<sup>104</sup> Available at [http://www.carnegieendowment.org/files/0331\\_transcript\\_npt1.pdf](http://www.carnegieendowment.org/files/0331_transcript_npt1.pdf).

<sup>105</sup> "Statement by Dr. Sha'ul Horev, Director General, Israel Atomic Energy Commission, to the 53<sup>rd</sup> General Conference of the International Atomic Energy Agency, September 2009," Israel Atomic Energy Commission, September 15, 2009.

<sup>106</sup> See, e.g., Wael al Assad, Statement of the League of Arab States before the Third Preparatory Committee for the 2010 NPT Review Conference, May 6, 2009; and Statement by H.E. Ambassador Maged Abdel Fatah Abdel Aziz before the Third Session of the Preparatory Committee for the 2010 NPT Review Conference, May 4, 2009.

## Bilateral Trade Issues

Israel and the United States concluded a Free Trade Agreement (FTA) in 1985, and all customs duties between the two trading partners have since been eliminated. The FTA includes provisions that protect both countries' more sensitive agricultural sub-sectors with non-tariff barriers, including import bans, quotas, and fees. Israeli exports to the United States have grown since the FTA became effective. Qualified Industrial Zones (QIZs) in Jordan and Egypt are considered part of the U.S.-Israel free trade area. In 2011, Israel imported \$14.0 billion in goods from and exported \$23.0 billion in goods to the United States.<sup>107</sup> The United States and Israel have launched several programs to stimulate Israeli industrial and scientific research, for which Congress has authorized and appropriated funds on several occasions.<sup>108</sup>

The "Special 301" provisions of the Trade Act of 1974, as amended, require the U.S. Trade Representative (USTR) to identify countries which deny adequate and effective protection of intellectual property rights (IPR). In April 2005, the USTR elevated Israel from its "Watch List" to its "Priority Watch List" because it had an "inadequate data protection regime" and intended to pass legislation to reduce patent term extensions. The USTR has retained Israel on the Priority Watch List in subsequent years, including in 2012, when it was one of 13 countries on the list.<sup>109</sup>

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<sup>107</sup> Statistics compiled by Foreign Trade Division, U.S. Census Bureau, available at <http://www.census.gov/foreign-trade/balance/c5081.html>.

<sup>108</sup> CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

<sup>109</sup> The other 12 are Algeria, Argentina, Canada, Chile, China, India, Indonesia, Pakistan, Russia, Thailand, Ukraine, and Venezuela. *2012 Special 301 Report*, available at <http://www.ustr.gov>. According to this report, the United States and Israel reached an Understanding on Intellectual Property Rights, "which concerns several longstanding issues regarding Israel's regime for pharmaceutical products, on February 18, 2010. As part of the Understanding, Israel committed to strengthen its laws on protection of pharmaceutical test data and patent term extension, and to publish patent applications promptly after the expiration of a period of eighteen months from the time an application is filed. The Understanding provided, among other things, that Israel would submit legislation regarding these matters within 180 days of the conclusion of the Understanding. The United States agreed to move Israel to the Watch List once Israel submitted appropriate legislation to the Knesset, and to remove Israel from the Special 301 Watch List once the Government enacted legislation implemented Israel's obligations fully."

## **Appendix. U.S.-Based Interest Groups Relating to Israel**

Groups actively interested in Israel and the peace process are noted below with links to their websites for information on their policy positions.

American Israel Public Affairs Committee: <http://www.aipac.org>

American Jewish Committee: <http://www.ajc.org>

American Jewish Congress: <http://www.ajcongress.org>

Americans for Peace Now: <http://www.peacenow.org>

Anti-Defamation League: <http://www.adl.org>

Conference of Presidents of Major Jewish Organizations: <http://www.conferenceofpresidents.org>

Foundation for Middle East Peace: <http://www.fmep.org>

Hadassah (The Women's Zionist Organization of America, Inc.): <http://www.hadassah.org>

Israel Bonds: <http://www.israelbonds.com>

The Israel Project: <http://www.theisraelproject.org>

Israel Policy Forum: <http://www.israelpolicyforum.org>

J Street: <http://jstreet.org>

Jewish National Fund: <http://www.jnf.org>

Jewish Policy Center: <http://www.jewishpolicycenter.org>

New Israel Fund: <http://www.nif.org>

S. Daniel Abraham Center for Middle East Peace: <http://www.centerpeace.org>

United Israel Appeal: <http://www.jewishfederations.org/united-israel-appeal.aspx>

Zionist Organization of America: <http://www.zoa.org>

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