



# Israel: Background and U.S. Relations

**Jim Zanotti**

Specialist in Middle Eastern Affairs

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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 the executive branch's dealings with Israel and the broader Middle East. Some Members of Congress and some analysts criticize what they perceive as insufficiently critical support of Israel. 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 government—with an Islamist parliamentary majority—may become more reflective of popular sentiment that includes anti-Israel strains. Israel perceives threats from Iran and from Iranian-sponsored non-state actors such as the Lebanese Shiite group Hezbollah, as well as Hamas and other Sunni Islamist Palestinian militants in Gaza. Israeli leaders have renewed calls for urgent international action against Iran's nuclear program, and some U.S. officials have warned of the potential consequences of Israeli air strikes against Iran.

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 the Israeli-Palestinian conflict. 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 occupied territories, 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 broader Muslim and Christian religious claims in the city. Although Israel withdrew its permanent military presence 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 market economy and a vibrant parliamentary democracy. Israeli Prime Minister Binyamin Netanyahu and his Likud Party lead a coalition that is unusually stable relative to recent Israeli governments. The next national elections will be held no later than early 2013. Israel's political and social debates are being shaped in new ways by population increases within ultra-Orthodox and Russian-speaking communities and among Israel's Arab citizens and Jews of non-European descent.

## Contents

Introduction.....	1
Historical and Demographic Overview of Israel .....	2
Government and Politics.....	5
Economy .....	7
The Palestinian Issue .....	9
Overview .....	9
Current Challenges and U.S. Involvement .....	10
Foreign Policy on Matters of U.S. Interest .....	12
Regional Security Concerns .....	12
Iran and Its Nuclear Program .....	14
Egypt .....	18
Jordan .....	19
Syria .....	20
Lebanon.....	21
Turkey .....	22
Issues Affecting U.S.-Israel Relations .....	24
Overview .....	24
U.S. Security Guarantees for Israel? .....	24
U.S. Aid and Arms Sales to Israel .....	26
Loan Guarantees.....	28
Security Cooperation.....	29
Preserving Israel’s Qualitative Military Edge (QME).....	30
Cooperative Missile Defense and Iron Dome .....	32
Emergency U.S. Stockpile in Israel.....	34
Sensitive Defense Technology and Intelligence Issues .....	34
Israeli Arms Sales to Other Countries .....	35
End-Use Monitoring.....	36
Espionage-Related Cases .....	38
Nuclear Non-Proliferation .....	38
Jerusalem .....	40
Settlements .....	41
Bilateral Trade .....	43
Scientific and Business Cooperation .....	44
Intellectual Property Protection.....	45
U.S.-Based Interest Groups Relating to Israel.....	45

## Figures

Figure 1. Map of Israel .....	4
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## **Tables**

Table 1. Parties in the Knesset, 2011 .....	5
Table 2. Key Cabinet Ministers .....	6
Table 3. Basic Facts .....	8
Table 4. Recent U.S. Assistance to Israel.....	28

## **Contacts**

Author Contact Information.....	46
Acknowledgments .....	46

## 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 insufficiently critical U.S. support of Israel. 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.

During 2011, Israel did not face any conventional military attacks, but its security perceptions changed as several surrounding Arab countries experienced political upheavals. Israel has few means of influencing political outcomes in Egypt, Syria, Lebanon, or Jordan, but developments in those states may significantly affect Israeli security. Israelis have expressed concern that Islamist governments hostile to Israel and the West could gain power in countries undergoing transitions.

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. Those factors may also be increasing the prospect of Hamas's integration into Palestinian organs of governance, despite ongoing tensions between Hamas and rival faction Fatah. These developments and Israeli reactions 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. Meanwhile, Israeli leaders have renewed their calls for urgent international action against Iran's nuclear program in a way that some analysts have interpreted as warning that Israeli air strikes against Iranian nuclear facilities could occur in coming months.

Domestically, Israeli Prime Minister Binyamin Netanyahu and his Likud Party lead a multi-party coalition that is viewed as right-wing.<sup>1</sup> The coalition has been unusually stable in a system where governments have rarely completed their terms. The next national elections will be held no later than early 2013. The announcement in January 2012 by television journalist Yair Lapid that he is forming a centrist party to compete in the next election has not changed most Israeli analysts' view of the likely outcome—probably similar to the current distribution of seats and another Netanyahu-led coalition, but with the possible loss of several seats by the centrist Kadima Party. The Kadima leadership primary between the current party leader, former Foreign Minister Tzipi Livni, and former Defense Minister Shaul Mofaz is scheduled for March 2012.

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. Current debate in the Knesset (Israel's parliament) and civil society focuses on addressing these issues as well as on controversial legislative proposals seeking to compel Israel's Arab citizens (comprising approximately 20% of the population) to affirm the state's "Jewishness" and to limit or tax

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<sup>1</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.

foreign funding for Israeli non-governmental organizations (NGOs). Efforts by growing ultra-orthodox Jewish communities to impose gender segregation on the general population in public places has also garnered attention in recent months. Netanyahu's government also is confronting increased attacks and vandalism by activists and Israeli West Bank settlers against 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). Rising public anger at these "price tag" attacks have created political difficulties for Netanyahu, whose coalition includes supporters of illegal outposts. U.S. officials, including Secretary of State Hillary Clinton, have expressed concern over these domestic developments.<sup>2</sup>

## Historical and Demographic Overview of Israel<sup>3</sup>

The quest for a modern Jewish homeland coincided with the publication of Theodor Herzl's *The Jewish State* in 1896. 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 overwhelming Arab majority in Palestine for eventual self-determination, insisting that its promises to Jews and Arab did not conflict. Jews immigrated to Palestine in ever greater numbers during the Mandate period, and clashes between Arabs and Jews and between both groups 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 independence and self-determination.

In 1947, the United Nations General Assembly developed a partition plan (Resolution 181) to divide Palestine into Jewish and Arab states, with Jerusalem and some surrounding areas proposed to be under U.N. trusteeship. The Jewish leadership (known as the Yishuv) welcomed the plan because of the legitimacy it conferred on the Jews' claims in Palestine, 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 has prefigured current debate regarding Israeli-Palestinian issues that focuses on 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. 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 point is roughly equal to that of the state of New Jersey. Israel engaged in further armed conflict with some or all of its neighboring Arab states in 1956, 1967, 1973, and 1982. Since the late 1960s, Israel has also dealt with the threat of Palestinian

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<sup>2</sup> Barak Ravid, "Clinton warns of Israel's eroding democratic values," *Ha'aretz*, December 5, 2011.

<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.

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. Israel's current relations with its neighbors are discussed in the "Foreign Policy on Matters of U.S. Interest" section below.

Israel's demographic profile is changing in a way that appears to be increasingly affecting its political orientation and societal debates. In the first decades following its founding, Israeli society was dominated by the 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 and who sought to build a country dedicated to Western liberal values. The 1977 electoral victory of Menachem Begin's Likud Party and its revisionist Zionist ideology helped boost the influence of historically marginalized groups, such as Haredim (ultra-Orthodox) from communities that predated Zionist immigration, and Sephardic and Mizrahi Jews who had largely immigrated to Israel from Arab countries and Iran following the outbreak of the 1948 war. The higher birth rates of these groups, combined with the influx of nearly a million Russian-speaking immigrants from the former Soviet Union in the 1990s, have increased their prominence in Israeli society relative to the traditional leadership class of Ashkenazi Jews. Political parties linked to these groups, including Yisrael Beiteinu (Russian-speaking immigrants) and Shas (Sephardic and Mizrahi Jews and Haredim), have increased in popularity as a result, while support for Ashkenazi Zionist parties such as Labor and Meretz has decreased.

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>4</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. Israel also faces increasing estrangement between its Jewish and Arab citizens (Arabs comprise more than 20% of the population). Military service remains compulsory for all Israeli young men and women, with exceptions for Arabs and most Haredim, though broad exceptions for men engaging in religious study might end as soon as the summer of 2012 following a February 2012 Israeli Supreme Court ruling overturning the law granting these exceptions.<sup>5</sup>

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<sup>4</sup> Haim Malka, *Crossroads: The Future of the U.S.-Israel Strategic Partnership*, Center for Strategic and International Studies, 2011.

<sup>5</sup> Amy Teibel, "Israeli ultra-Orthodox say they won't be drafted," *Associated Press*, February 27, 2012.

Figure 1. Map of Israel



Source: Map Resources. Adapted by CRS.



## Government and Politics

Israel is a parliamentary democracy in which the President is head of state and the Prime Minister is head of government. 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 14-minister "security cabinet."

The political spectrum is highly fragmented, with small parties exercising disproportionate power due to the low vote threshold for entry into parliament and the need for major parties to seek the support of smaller parties 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 it spurred some to join together simply 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 22 months. In recent years, the peace process and scandals have caused coalitions to break apart or produced early elections. Just as rules have been changed to make it harder for tiny parties to enter the Knesset, the conditions for bringing down a government have also become more stringent.

Israel does not have a 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, 2011**

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; negotiate economic peace before a permanent "arrangement" with the Palestinians	Coalition
15	Yisrael Beiteinu (Israel Our Home)	Russian-speakers; Rightist; Nationalist; Secular; a Palestinian state to be established only if Israeli Arabs and their territory are exchanged for Jewish settlers and settlements	Coalition
10	Shas	Sephardi; Ultra-orthodox; seeks more social welfare and education funds; opposes "division" of Jerusalem by ceding the east for a Palestinian capital	Coalition
8	Ha'avoda (Labor)	Leftist; Social-democrat; a Palestinian state should be established 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 welfare and education funds	Coalition
4	National Union (NU) <sup>c</sup>	Nationalist; Ashkenazi Orthodox; opposes	Opposition

Seats	Party	Orientation and Views	Coalition or Opposition
		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	
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
1	Am Shalem (Whole Nation) <sup>d</sup>	Ultra-Orthodox former member of Shas	Coalition

- a. Ehud Barak and 4 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," *Foreign Policy online*, 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.
- d. Chaim Amsalem was expelled from Shas in late 2010 and formed his own party in April 2011.

**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

Post(s)	Incumbent	Party
Deputy Prime Minister, Minister of Intelligence and Atomic Energy	Dan Meridor	Likud
Minister of Finance	Yuval Steinitz	Likud

## 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.

Israel is aiming to shrink its budget deficit to 1% of gross domestic product by 2014, and the government is allowed by law to raise the annual budget by only 1.7%. 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 suggested that cuts in social spending had widened the national income gap and shrunk 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>6</sup> The protests occurred despite Israel's very impressive macroeconomic profile and fiscal position. Various factors—including Israel's communitarian heritage, its unique system of land ownership, its tradition of vigorous public debate, and the consequences of deregulation for a system characterized by some as “crony capitalism”<sup>7</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. The committee's report included calls for domestic spending increases, a more progressive income tax system, early childhood education, changes to pricing policies, and cuts to defense spending. The tax proposals have already been enacted into law, but most of the other proposals—though accepted in principle by Israel's cabinet—remain subject to political debate given concerns over whether defense spending reductions are advisable at a time of increased regional uncertainty. Since 2009, Israel has made its budgets on a two-year cycle. The utility of this practice is a subject of debate, and the Knesset will decide by the end of 2012 whether it will be extended for a third such cycle.<sup>8</sup>

<sup>6</sup> See “Street Power,” *Economist*, August 6, 2011.

<sup>7</sup> Daniel Doron, “Crony Capitalism in Israel,” *Wall Street Journal*, October 9, 2010.

<sup>8</sup> Ruth Levush, “Israel's Social Protest and the Two-Year Budget Cycle: Any Lessons?,” *blogs.loc.gov*, September 14, 2011.

**Table 3. Basic Facts**

Population	7.76 million (2011 est.) (includes an estimated 296,700 settlers in the West Bank (2009 est.), 192,800 in East Jerusalem (2008 est.), and 19,100 in the Golan Heights (2008 est.))
Jews	75.4%
Arabs	20.5% (84.0% Muslim, 8.1% Druze, 7.8% Christian) (2010 est.)
Real Gross Domestic Product growth rate	4.6% (2011 est.)
GDP per capita	\$30,082 (2011 est.)
Unemployment rate	5.6% (2011 est.)
Population below poverty line	23.6% (2007 est.)
Inflation rate	2.6% (2011 est.)
Military spending as % of GDP	6.2% (2010 est.)
External Debt as % of GDP	46% (2011 est.)
Current account (Trade) surplus as % of GDP	0.2% (2011 est.)
Exports	\$55.67 billion (2010 est.)
Export commodities	machinery and equipment, software, cut diamonds, agricultural products
Export partners	U.S. 32.1%, Hong Kong 6.3%, India 5.1%, Belgium 5.1% (2010 est.)
Imports	\$58.04 billion (2010 est.)
Import commodities	raw materials, military equipment, investment goods, rough diamonds
Import partners	U.S. 12.8%, China 8.1%, Germany 6.3%, Belgium 5.8%, (2010 est.)

**Source:** Central Intelligence Agency, *The World Factbook*; Economist Intelligence Unit; Israel Central Bureau of Statistics.

Reported offshore natural gas finds 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 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 2012 for Tamar 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>9</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%.

<sup>9</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.

# The Palestinian Issue<sup>10</sup>

## Overview

From the late 19<sup>th</sup> century onward, many Zionists have attempted to reconcile their national aspirations for a Jewish homeland in historic Palestine with those of Arabs living there. This ongoing dilemma of competing claims has been exacerbated by conflict and by the actions and agendas of neighboring Arab states and other regional and international actors. As the state of Israel won its independence in 1947-1949 while fighting Palestinian Arab militias and Arab state armies, roughly 700,000 Palestinians were driven or fled from their homes in what is now Israel, an occurrence Palestinians call the *nakba* (“catastrophe”). Palestinian exiles based in Arab states increasingly supplanted Arab state governments as the primary champions of their people’s cause after Israel’s military occupation of the West Bank (including East Jerusalem) and Gaza Strip during the 1967 Arab-Israeli war.

Two decades of violence—including Palestinian acts of international terrorism—and international political rivalry ensued between Israel and the Palestine Liberation Organization (PLO). Meanwhile, Israelis began constructing communities for Jewish Israelis (generally referred to as “settlements”) in the territories captured in 1967. Although Israel officially withdrew from Gaza in 2005, and the West Bank (save for East Jerusalem and its greater vicinity) has not been annexed by Israel, Israeli citizens residing in the West Bank are subject to Israeli law and are connected by transportation and other infrastructure systems to Israel proper. Furthermore, Israel continues to control access and commerce to and from both the West Bank and Gaza, with the exception of Egypt’s control over the passage of individuals at the Rafah crossing on its border with Gaza. Israel also still maintains control over many aspects of governance and security for Palestinians within the West Bank.

Beginning in 1987, an intifada (uprising) by Palestinians against Israeli rule in the West Bank and Gaza helped mobilize support among Israelis for greater Palestinian self-rule in exchange for assurances of peaceful coexistence. The resulting U.S.-brokered peace process, which established a Palestinian Authority (PA) with powers of limited self-rule over Gaza and parts of the West Bank, has not successfully resolved the core issues of Israeli-Palestinian dispute: borders, security parameters, settlements, refugees, and the status of Jerusalem. A second Palestinian intifada in the early 2000s brought deadly and traumatizing violence to both Israelis and Palestinians, contributing to slowdowns and reversals of the peace process.

Outbreaks of violence have eroded trust and empowered political movements on both sides that are deeply skeptical of the possibility of Israel coexisting peacefully with a Palestinian state. Palestinian political division is exacerbated by a geographical split between parts of the West Bank under the limited rule of PA President and Fatah leader Mahmoud Abbas, and Gaza under the rule of the Islamist group Hamas (a U.S.-designated terrorist group). Israeli security measures, which were established largely in response to Palestinian terrorist threats, are perceived by Palestinians and many international observers as too obstructive of Palestinian political and economic freedoms to foster conditions for peace. Israel is continually faced with the question of whether to maintain the political and security status quo, to continue efforts for peace through

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<sup>10</sup> See also CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti.

negotiations, or to take a different course of action. Decisions on this question have traditionally defined Israel's domestic political scene, and are interrelated with Israel's other regional and international concerns, including those involving threats from Iran's regime and various state and non-state groups that Iran supports.

## **Current Challenges and U.S. Involvement**

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>11</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>12</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 interests of long-term peace if opposition to Israel and its policies becomes more of an organizing principle for political activism throughout the region.

In May 2011, President Obama gave two speeches calling for renewed Israeli-Palestinian negotiations focusing on the issues of borders and security parameters. The speeches contemplated that borders would be based on the Israel-West Bank armistice line existing prior to the 1967 war (also known as the "Green Line"). In referring to possible land swaps, the President implied that Israel would compensate Palestinians for existing settlements and contiguous areas beyond the Green Line that it might keep in a final agreement. Although Prime Minister Netanyahu did not categorically reject President Obama's proposal, he complained in response—including at a speech before a joint session of Congress—that the 1967 war established that the preexisting armistice line was not defensible and thus not a proper reference point for permanent borders. During the first two years of Obama's and 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—claiming inspiration from Obama's public call for this freeze—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.

Substantive Israeli-Palestinian negotiations have not resumed to date, even within the limited scope of borders and security. A temporary and partial Israeli moratorium on new building

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<sup>11</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>12</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.

projects in the West Bank expired without extension in late 2010. Continued construction beyond the Green Line, including public announcements of new projects in the West Bank and East Jerusalem, have been criticized widely by Palestinians, the Obama Administration, and other international actors as undermining prospects for peace talks. This contributed to the effort by PLO and Abbas (its chairman) in 2011 to seek greater international recognition of Palestinian statehood outside of a negotiating context. The effort climaxed in the PLO's September 2011 application for membership to the United Nations and late 2011 admission to the U.N. Educational, Scientific and Cultural Organization (UNESCO). However, the Palestinian U.N. membership effort has stalled in the Security Council and, despite opportunities to pursue the effort further there and with other specialized U.N. agencies, the PLO has not yet opted to do so. Congressional holds on portions of FY2011 aid to the Palestinians—some of which have been lifted—and Israeli withholding of transfer payments that constitute over half of the PA's budget came in response to Palestinian actions at the United Nations and may influence Abbas's thinking regarding the viability of future efforts.<sup>13</sup> 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 are emblematic of a larger effort by Palestinians and their supporters to “delegitimize” Israel, and to an increasing reservoir of international anti-Israel and anti-Semitic feeling.<sup>14</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 press for Israeli-Palestinian talks aimed at a peace agreement by the end of 2012. However, as preconditions to talks, the PLO insists that Israel halt all construction beyond the Green Line and accept the 1967 lines as terms of reference.<sup>15</sup> Meanwhile, Palestinian and regional Arab political developments have led Fatah and Hamas to agree in principle to establish a consensus PA government, coordinate future PLO actions, exchange political prisoners, and hold PA and PLO elections in 2012. The likelihood of these developments actually occurring, however, remains unclear. Hamas's profile may have been strengthened by the Netanyahu government's late 2011 release of over 1,000 Palestinian prisoners in exchange for the release of captured Israeli soldier Gilad Shalit, as well as by the apparent empowerment of the Muslim Brotherhood and other Islamist movements in Egypt and other Arab countries.<sup>16</sup> The unrest in Syria and its violent suppression by the Assad regime has reportedly led to a weakening of ties between Hamas and Iran, as Hamas's external leadership has left its Damascus headquarters and is emphasizing its Muslim Brotherhood roots.<sup>17</sup> If Hamas eschews

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<sup>13</sup> 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>14</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>15</sup> The Netanyahu government insisted prior to September 2011 that PLO acceptance of Israel as a Jewish state was a precondition to resuming negotiations, but appears to no longer explicitly take this position. PLO officials claim that accepting Israel as Jewish state before talks would undermine the PLO negotiating position on Palestinian refugees and might further undermine the status of Arab citizens of Israel.

<sup>16</sup> However, some analysts assert that Hamas may face challenges from the ongoing Arab Awakening owing both to its external political leadership's former close ties to the Syrian regime, and to perceptions among some that it has not governed according to the popular will since taking power in Gaza in 2007.

<sup>17</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 (continued...)

violence temporarily or permanently as part of this shift, the group could pose less of an immediate threat to Israel, but threats from splinter factions or more extreme groups in the Gaza Strip would likely remain. Israel would also face more complicated choices about whether and how to deal with Hamas, the PLO, and the PA politically if Hamas involvement in the PLO and PA were to increase. Thus far, Netanyahu 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.<sup>18</sup>

As Fatah and Hamas consider their options vis-à-vis each other and Israel in the absence of progress toward a two-state solution, some analysts assert that Israeli leaders face a dilemma between democracy and demography. 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. Their concerns focused 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 it is unclear to what extent Netanyahu and other members of his government see demography as a problem.

## **Foreign Policy on Matters of U.S. Interest**

### **Regional Security Concerns**

Ongoing political change in the Arab Middle East could have a lasting impact on Israeli perceptions of security. Following Israel's peace treaty with Egypt in 1979, the priority that Israel had placed since its founding in 1948 on defending against a concentration of Arab conventional armies at its borders gave way to concerns about generally asymmetric threats posed by terrorism and rocket arsenals. Near-complete success in stopping Palestinian terrorist attacks inside Israel after 2006 led to greater Israeli focus on perceived threats from Iran—including a possibly existential nuclear threat—and non-state actors allied to it in Lebanon and the Gaza Strip. Given the ongoing regional change, however, Israel is once again uncertain about what to expect from Egypt and Syria, and is also concerned about the future stability of Jordan's monarchy. Israelis have expressed concern that Islamist governments hostile to Israel and the West could gain power. Drastic limits on Israel's ability to affect political and economic outcomes within Arab states—given its near-universal vilification among those populations—add a sense of powerlessness to that of growing and intensified danger. Additionally, it is unclear whether Israel views political change in the Arab world and the effect of that change on the Iranian regime as a factor affecting a possible decision on whether and when to attack Iranian nuclear facilities.

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(...continued)

Sudan.

<sup>18</sup> See also CRS Report R41514, *Hamas: Background and Issues for Congress*, by Jim Zanotti.



In this complex threat environment, Israel's dependence on U.S. security guarantees, strategic cooperation, and regional influence—already substantial for decades—may increase (see “U.S. Security Guarantees for Israel?” and “Security Cooperation” below). If that is the case, one probable result is that most international actors will hold the United States responsible to a greater degree for Israel's actions. This could lead to disagreement among U.S. and Israeli officials over the way in which Israel can continue to carry out its traditional prerogative of “defending itself, by itself,” possibly leading U.S. policymakers to increase calls for formal or informal Israeli communication or coordination of future military plans. Israeli officials and commentators, along with some former U.S. officials, have seemingly stepped up efforts to assert that Israel is the most reliable and valuable U.S. ally in a region critical to U.S. and global interests.<sup>19</sup> These efforts may seek to bolster the already strong popular and official U.S. commitment to Israel's security, but they may also seek to minimize a view among U.S. policymakers that Israel should defer more to U.S. views on regional military action and on diplomacy with Palestinians in reciprocation for increased or continued security assistance.<sup>20</sup> According to a November 2011 *Jewish Daily Forward* article, U.S. actors 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.”<sup>21</sup>

Observations such as those from Secretary of Defense Leon Panetta that Israel is increasingly isolated in the region and internationally<sup>22</sup> prompt questions about how Israel is likely to try 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 on its current security practices or its negotiating demands with the Palestinians when the leadership status and internal stability of most of its neighboring countries—Egypt, Syria, Lebanon—remain unclear? Or will it accept a greater measure of regional and international isolation, further increasing its reliance on U.S. security guarantees and strategic cooperation? Israel's actions may depend on whether its leaders perceive their policies—as opposed to entrenched anti-Israel sentiments—are a key factor in Israel's isolation.

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<sup>19</sup> See, e.g., Zalman Shoval, “Time to upgrade the US-Israel strategic relationship,” *Jerusalem Post*, October 5, 2011; Robert D. Blackwill and Walter B. Slocombe, *Israel: A Strategic Asset for the United States*, Washington Institute for Near East Policy, November 2011.

<sup>20</sup> According to one report, in a National Security Council meeting during the summer of 2011, then Secretary of Defense Robert Gates “coldly laid out the many steps the administration has taken to guarantee Israel's security—access to top-quality weapons, assistance developing missile-defense systems, high-level intelligence sharing—and then stated bluntly that the U.S. has received nothing in return, particularly with regard to the peace process. Gates reportedly argued to the President directly that Israeli Prime Minister Binyamin Netanyahu “is not only ungrateful, but also endangering his country by refusing to grapple with Israel's growing isolation and with the demographic challenges it faces if it keeps control of the West Bank.” Jeffrey Goldberg, “Robert Gates Says Israel Is an Ungrateful Ally,” *Bloomberg*, September 5, 2011.

<sup>21</sup> Nathan Guttman, “Israel Is Strategic Asset After All,” *Jewish Daily Forward*, November 18, 2011.

<sup>22</sup> 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>.

## Iran and Its Nuclear Program<sup>23</sup>

Many Israeli officials have stated that Iran will pose an existential threat to Israel if it achieves nuclear weapons capability. Some claim that because of Iranian leaders' longstanding ideological pronouncements against the existence of Israel,<sup>24</sup> Iran might seek to use a nuclear weapon against Israel even if faced with the prospect of near-certain retaliation from Israel's presumed nuclear arsenal.<sup>25</sup>

However, according to prominent Israeli investigative reporter Ronen Bergman, "most of Israel's leaders do not believe that Iran is going to use nuclear weapon[s] against Israel.... The Iranians are not stupid. They want to live.... [T]hey are not suicidal..."<sup>26</sup> Some leading Israeli officials and analysts—including Defense Minister Ehud Barak and Tamir Pardo, director of Israel's Mossad intelligence agency—generally avoid characterizing the threat from Iran as existential because they claim that Israel "is a strong state and it could protect itself under any circumstances."<sup>27</sup> Yet, for many of these officials, the threat of a nuclear-weapons-capable Iran is still thought to present enormously high costs. They are concerned that a nuclear Iran would compromise traditional Israeli security doctrine and practices—based on principles of self-reliance and maintaining overwhelming military superiority—and lead to an unacceptable level of uncertainty. This in turn would fundamentally damage the quality of life and psychological sense of safety that Israelis deem critically important to their continued viability as a Jewish national home.<sup>28</sup>

Israeli leaders have hinted repeatedly since the George W. Bush Administration that absent international action to ensure that Iran cannot obtain a nuclear weapons capability, Israel might take military action. Iran reportedly possesses missiles capable of delivering a conventional warhead to Israel,<sup>29</sup> and Israel reportedly possesses missiles and aircraft capable of delivering preemptive and/or retaliatory strikes against Iran. U.S., Israeli, and international estimates indicate that Iran could possess enough fissile material for a nuclear weapon as early as one year after a decision to pursue a nuclear weapons capability, and could prepare a weapon for missile delivery one year after that.

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<sup>23</sup> See also CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

<sup>24</sup> Ayatollah Ruhollah Khomeini, leader of Iran's Islamic revolution, decreed that the elimination of Israel is a religious duty. His successor as supreme leader, Ayatollah Ali Khamene'i, has repeatedly referred to Israel as a "cancerous tumor" since his accession in 1989, including in a rare Friday sermon at a Tehran mosque in February 2012. Elected President Mahmoud Ahmadinejad quoted Khomeini when he expressed the hope that Israel would eventually be "wiped off the map," and he has described the Holocaust as a "myth" used as a pretext to create an "artificial Zionist regime."

<sup>25</sup> Israel is not a party to the Nuclear Nonproliferation Treaty (NPT) and is widely assumed internationally to have clandestinely developed its own undeclared nuclear weapons capability. A consensus among media and expert reports is that Israel possesses an arsenal of 100 to 200 nuclear weapons, although some suggest a higher figure. See, e.g., Douglas Frantz, "Israel Gains Full Nuclear Arsenal," *Los Angeles Times*, October 12, 2003. In a report on National Public Radio's *All Things Considered* on March 22, 2001, Eric Weiner used a range of 200 to 400 nuclear weapons, citing the CIA as his source.

<sup>26</sup> Transcript from National Public Radio's *Talk of the Nation*, January 30, 2012.

<sup>27</sup> Avner Cohen, "Israel ponders a nuclear Iran," *Bulletin of the Atomic Scientists* (web edition), August 17, 2010. See also Barak Ravid, "Mossad chief: Nuclear Iran not necessarily existential threat to Israel," *Ha'aretz*, December 29, 2011.

<sup>28</sup> Haim Malka, *Crossroads: The Future of the U.S.-Israel Strategic Partnership*, Center for Strategic and International Studies, 2011, pp. 58-59; Kaye, et al., op. cit., pp. 37, 52-53.

<sup>29</sup> Iran's arsenal includes the Shahab-3, a single-stage, liquid-fueled missile, with a range of up to 1,200 miles, and the two-stage, solid-fuel Sajjil-2 missile, with a range of 1,200 miles to 1,500 miles, which was test-fired on May 20, 2009.

Israeli officials have called on the international community to thwart Iran's nuclear ambitions in order to avert the need for Israel to act as it did when it destroyed Iraq's reactor at Osirak in a military strike in 1981 or when it struck a presumed nuclear site at Al Kibar near Deir al Zur in Syria in 2007. In addition to the direct threat that Israel would face from a nuclear-weapons-capable Iran, Israeli officials are concerned that such a capability would erode means of deterring Iran from pursuing greater regional influence and amplifying threats to Israeli security from the Shiite group Hezbollah in Lebanon, Hamas and Palestinian militants in Gaza, and possibly even the beleaguered Assad regime in Syria. Analysts discuss a range of possible regional reactions, including a change by Gulf Arab states to try to reach an accommodation with Iran, or the possibility of nuclear proliferation in countries such as Egypt, Turkey, and Saudi Arabia, potentially compelling Israel to either declare its nuclear weapons status or consider giving it up if Iran will do the same.<sup>30</sup>

In late 2011, Israeli officials increased their calls for international action against Iran's nuclear program. Some observers interpreted these calls as possible warnings that absent more vigorous international action or even a U.S. air strike against Iranian nuclear facilities, Israeli air strikes might ensue in coming months. In a November 2011 CNN interview, Israeli Defense Minister Ehud Barak said that the window of opportunity for a preventive strike to effectively stop or slow Iran's progress toward nuclear weapons capability could close within nine months.<sup>31</sup> He explained that Iran could enter a "zone of immunity" from military action "by widening [the] redundancy of their plan, making it spread over many more [sites], with many more elements."<sup>32</sup> At the February 2012 annual Herzliya security conference in Israel, Barak explained his zone of immunity concept largely through reference to concerns that a substantial portion of Iran's enriched uranium and/or uranium enrichment centrifuges are being moved into its new Fordow facility near the city of Qom.<sup>33</sup> Fordow is reportedly built into mountainous terrain at least 230 feet underground, and is thought by most analysts to be impenetrable by U.S.-supplied Israeli bunker-buster bombs.<sup>34</sup>

U.S. and Israeli intelligence assessments generally agree that Iran seeks a nuclear weapons "breakout" capacity—gathering the components "necessary for nuclear weapons while deferring a decision on whether to build and test a bomb."<sup>35</sup> However, they have periodically differed on timetables and on details pertaining to Iran's pursuit of weaponization, and on the level of Iranian progress they publicly deem unacceptable. Some observers assert that Israeli reports and official statements hinting at possible military action are mainly calculated to intimidate Iran and prod Western governments to greater action.

Analyses of the question of possible U.S., Israeli, or joint military action against Iran's nuclear facilities and infrastructure generally show that officials within the U.S. and Israeli governments have a variety of views on its advisability and on the following points related to this issue:

- The imminence and nature of the Iranian threat;

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<sup>30</sup> Avner Cohen, "Israel ponders a nuclear Iran," *Bulletin of the Atomic Scientists* (web edition), August 17, 2010.

<sup>31</sup> Transcript available at <http://transcripts.cnn.com/TRANSCRIPTS/111120/fzgps.01.html>.

<sup>32</sup> Transcript of remarks by Ehud Barak on CNN's *Fareed Zakaria GPS*, November 20, 2011.

<sup>33</sup> "Israel and Iran: Closer to take-off," *Economist*, February 11, 2012.

<sup>34</sup> For a scenario proposing that Israel might be able to target Fordow, see Austin Long, "Can They?," *Tablet*, November 18, 2011.

<sup>35</sup> Joel Greenberg and Joby Warrick, "Israel: Iran must be stopped soon," *Washington Post*, February 3, 2012.

- The question of whether non-military options have a chance of succeeding within an acceptable time frame;
- The likelihood that Israel would act against or without ascertaining U.S. wishes;
- The potential for military action to eliminate or delay Iran's nuclear program;
- The likely response of Iran and other regional countries to potential military action; and
- The possibility of long-term coexistence with and/or containment of an Iran that has nuclear weapons or a breakout capacity.<sup>36</sup>

In January 2012, on the eve of a visit to Israel by General Martin Dempsey, Chairman of the Joint Chiefs of Staff, Defense Minister Barak said that a decision on a possible Israeli preventive strike remained “very far off,”<sup>37</sup> though at the Herzliya conference in early February he also said that time was “urgently running out” to act. A February 2012 column by David Ignatius of the *Washington Post* stated that Secretary of Defense Leon Panetta “believes there is a strong likelihood that Israel will strike Iran in April, May or June.”<sup>38</sup>

Since the second term of the George W. Bush Administration, U.S. officials have sought to coordinate positions on Iran's nuclear program with Israel while possibly also dissuading it from acting on its own. In doing so, they have attempted to maintain that a credible strike option exists while simultaneously communicating the possible risks for U.S. interests, regional security, and global energy markets.<sup>39</sup> It is unclear whether Israel views ongoing political change in the Arab world and the effect of that change on the Iranian regime as a factor affecting a possible attack decision and/or timeline. It is also unclear to what extent reports of a possible ongoing “secret war” against Iran's nuclear program, perhaps involving Israel and one or more Western countries in surveillance, sabotage, and assassination,<sup>40</sup> might mitigate the need for an air strike. The two previous heads of Israel's Mossad spy agency, Meir Dagan and Ephraim Halevy, have both publicly stated that an Israeli military strike against Iran's nuclear facilities would be counterproductive, partly because—according to one report—they both “believe sabotage and diplomacy have done much to set back Iran's nuclear ambitions and can do more yet.”<sup>41</sup> A U.S.-Israel joint missile defense exercise known as Austere Challenge 12 has been postponed from its planned April date and will reportedly be rescheduled for October or November 2012. Some reports claim that the exercise is being rescheduled for later in the year at least partly to

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<sup>36</sup> See, e.g., Ronen Bergman, “Will Israel Attack Iran?,” *New York Times Magazine*, January 25, 2012; Dalia Dassa Kaye, et al., *Israel and Iran: A Dangerous Rivalry*, RAND Corporation, 2011; Dana H. Allin and Steven Simon, *The Sixth Crisis: Iran, Israel, America and the Rumors of War*, New York: Oxford University Press, 2010.

<sup>37</sup> Isabel Kershner and Rick Gladstone, “Decision to Attack Iran Is ‘Far Off,’ Israel Says,” *New York Times*, January 19, 2012.

<sup>38</sup> David Ignatius, “Of a mind to attack Iran,” *Washington Post*, February 3, 2012.

<sup>39</sup> Eli Lake, “U.S., Israel Discuss Triggers for Bombing Iran's Nuclear Infrastructure,” *Daily Beast*, December 28, 2011.

<sup>40</sup> Yossi Melman, “The war against Iran's nuclear program has already begun,” *Ha'aretz*, December 2, 2011.

<sup>41</sup> Bruce Riedel, “The Israeli Anti-Attack-Iran Brigade,” *The Daily Beast*, November 7, 2011. However, according to one report, some senior Israeli military intelligence officials believe that—as was the case with Iraq in the late 1970s/early 1980s—possible Mossad actions have not stopped Iran's progress toward nuclear weapons capability. Bergman, op. cit.

discourage perceptions of joint U.S.-Israel planning with respect to a possible spring 2012 Israeli attack.<sup>42</sup>

Additionally, some U.S. and Israeli officials and former officials have stated their belief that Israel is incapable of the sustained military campaign they believe to be necessary to significantly set back Iran's nuclear program.<sup>43</sup> However, a 2010 book co-authored by Steven Simon—before he was appointed to his current position as senior director for the Middle East and North Africa on the National Security Council staff—suggested that because of the burden Prime Minister Netanyahu may take upon himself to prevent possible future disaster for his people, “U.S. calculations of risk and benefit that tilt toward Israeli restraint might prove to be mirror-imaging of a particularly deceptive sort.”<sup>44</sup> The book also raises the possibility that Israel might consider a potential military strike to possibly mark the beginning of a series of intelligence and military efforts to “mow the lawn” on a periodic basis over an extended period of time in the event Iran seeks to continue or reconstitute its nuclear program.<sup>45</sup>

In counseling patience, the United States is arguing that sanctions have finally begun to yield visible results and are likely to become more effective as time passes. In 2011, the United States and some of its major allies have begun to impose sanctions directly against Iran's sale of crude oil, for which Iran depends for about 70% of its hard currency revenues. Earlier, in the 111<sup>th</sup> Congress, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA, P.L. 111-195) expanded existing sanctions significantly to try to restrict Iran's ability to make or import gasoline. CISADA also added a broad range of other measures further restricting the already limited amount of U.S. trade with Iran and restricting some high technology trade with countries that allow WMD-useful technology to reach Iran. In the 2012 National Defense Authorization Act (P.L. 112-81), Congress passed additional sanctions on Iran set to take full effect in June 2012. These sanctions target Iran's ability to receive oil payments through its Central Bank, an effect that could greatly reduce Iran's oil export earnings and reports indicate that major Asian oil importers such as India, Japan, and South Korea—in order to avoid sanctions under this provision—are considering shifting at least partially to alternative sources.<sup>46</sup> The European Union in January 2012 announced its own oil embargo against Iran, to be implemented by July 2012. Both U.S. and Israeli officials have publicly cited effects they believe sanctions are having on Iran's economy, including rapidly accelerating depreciation of Iran's currency (the rial). How this will affect the regime's plans regarding its nuclear program is not clear,<sup>47</sup> but some Israeli officials have expressed concerns that sanctions are unlikely to have a timely, decisive effect.

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<sup>42</sup> Yaakov Katz, “Joint drill with U.S. to be held after delay,” *Jerusalem Post*, February 6, 2012.

<sup>43</sup> This includes former Central Intelligence Agency and National Security Agency director Michael Hayden, who was quoted in January 2011 as saying at a Washington, DC event, “The Israelis aren't going to [attack Iran] ... they can't do it, it's beyond their capacity. They only have the ability to make this [problem of Iran's nuclear program] worse. We can do a lot better.” Josh Rogin, “Bush's CIA director: We determined attacking Iran was a bad idea,” *thecable.foreignpolicy.com*, January 19, 2011.

<sup>44</sup> Dana H. Allin and Steven Simon, *The Sixth Crisis: Iran, Israel, America and the Rumors of War*, New York: Oxford University Press, 2010, p. 52.

<sup>45</sup> *Ibid.*, p. 53.

<sup>46</sup> Tom Gjelten, “Can Sanctions Alone Get Iran to Negotiate?,” *NPR*, January 25, 2012.

<sup>47</sup> For more information on Iran sanctions, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.

## Egypt<sup>48</sup>

For more than 30 years, the United States and Israel have based their core assumptions about the basic stability of the Middle East and the absence of major Israeli-Arab conventional warfare on the cornerstone of the March 1979 Israel-Egypt peace treaty. The Israeli government is concerned that its quiet, though cold, peace with Egypt may suffer as ongoing Egyptian political change empowers anti-Israel public opinion. Israeli leaders are concerned that an Islamist government in Egypt dominated by the Muslim Brotherhood might revisit aspects of Egypt's cooperation with Israel. Although Islamist groups have thus far publicly stated that they do not intend to abrogate the peace treaty, some political figures have suggested holding a popular referendum on the treaty. Additionally, popular sympathy for Palestinian rights and challenges to government control of the Sinai Peninsula could make it difficult for Egypt to counter smuggling into Gaza and continue to limit passenger traffic at the Rafah crossing. Even after 2011-2012 elections, the power structure and constitutional order of a new Egyptian government may remain unclear for some time. In the future, Egypt may clash more frequently with Israel politically, like Turkey has in recent years, which could complicate U.S. efforts to maintain regional stability and partnerships with both countries. If U.S.-Egypt tensions over Egypt's early 2012 crackdown on non-governmental organizations promoting democracy in the country lead to a change in U.S. assistance to Egypt, it is possible that could affect Israel's relations with Egypt.

Israel and Egypt signed the 1979 peace treaty after having fought four wars in as many decades. In 1982, Israel withdrew from the Sinai Peninsula, which it had occupied in the 1967 war, and Egypt and Israel established diplomatic relations. Some Israelis refer to their ties with Egypt as a "cold peace" because full normalization of relations with regard to trade, tourism, and educational and cultural exchange has not materialized. Egyptians say that they are reluctant to engage because of Israel's continuing occupation of Arab lands. Israelis are upset by some Egyptian media and religious figures' anti-Israel and occasionally anti-Semitic rhetoric.

Under Mubarak, the Egyptian government often played a constructive role in the Arab-Israeli peace process, hosting meetings and acting as a liaison. It generally supported President Mahmoud Abbas. For example, after Hamas took over the Gaza Strip in June 2007, Egypt worked with Israel to largely close the Rafah crossing at the Gaza-Egypt border. The post-Mubarak government has generally been seen as more sympathetic (some Arab observers say more even-handed) to Hamas. Observers have seen this as important to Egypt's mediation of a May 2011 agreement in principle between Fatah and Hamas and the Israel-Hamas prisoner exchange in late 2011 involving Gilad Shalit. Reports indicate that some of Hamas's external leadership previously based in Syria has either relocated or plans to relocate to Cairo as a result of the political upheaval faced by the Assad regime.

Israel is also concerned over heightened instability in an already difficult-to-govern Sinai Peninsula, and the transitional Egyptian government's ability to control Sinai's tribal groups and networks of militants and criminals. These groups use the Sinai to smuggle weapons into Gaza and to carry out terrorist incursions into Israel. A terrorist incursion in August 2011 led to the accidental killing of five Egyptian soldiers in the border area by Israeli forces pursuing the terrorists. This fed popular Egyptian outcries that resulted in a storming of the Israeli embassy in September 2011 that was only defused after President Obama and other top U.S. officials coordinated the rescue of Israeli personnel with Egypt's Supreme Council of the Armed Forces

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<sup>48</sup> CRS Report RL33003, *Egypt in Transition*, by Jeremy M. Sharp.

(SCAF). Israel eventually apologized to Egypt for the accidental killings. Reports indicate that Israel has increased its deployments near its 140-mile border with Egypt and is building a 15-foot-tall fence (planned to be completed in late 2012) on its side of the border at a cost of \$360 million.<sup>49</sup> Past U.S. efforts to provide aid to Egypt to counter smuggling into Gaza or to condition military aid on improved anti-smuggling efforts have not decisively solved the problem. Although the Israel-Egypt peace treaty provides for the Sinai's demilitarization, Egypt deployed armored vehicles and 1,500 troops in August 2011 to join civilian border guards and police after receiving the required permission by Israel pursuant to the treaty.

Israel-Egypt relations have an economic dimension. In December 2004, Egypt and Israel signed a Qualified Industrial Zone (QIZ) agreement under which jointly produced goods enter the U.S. market duty free as part of the U.S.-Israel Free Trade Agreement. The QIZ agreement was amended and expanded in October 2007. Since the initial agreement was signed, Israeli exports to Egypt have grown, as have Egyptian exports to the United States. In June 2005, Israel signed a memorandum of understanding (MOU) to buy 1.7 billion cubic feet of Egyptian natural gas for an estimated \$2.5 billion over 15 years, fulfilling a commitment made in an addendum to the 1979 peace treaty. Gas began to flow in February 2008. Repeated attacks by militants or tribal groups in the Sinai have disabled the pipeline carrying the gas to Israel and Jordan multiple times since Mubarak's departure. Although the pipeline supplies over 40% of Israel's natural gas, Israel's natural gas dependence is minimal, so supply disruption actually has a greater effect on Jordan's energy security. Many Egyptian politicians have voiced support for renegotiating the 2005 MOU on more favorable terms for Egypt.<sup>50</sup>

## **Jordan**<sup>51</sup>

Israel and Jordan signed a peace treaty in October 1994 and exchanged ambassadors. Relations have developed with trade, cultural exchanges, and water-sharing agreements. Since 1997, Jordan and Israel have collaborated in creating 13 qualified industrial zones (QIZs) to export jointly produced goods to the United States duty-free under the U.S.-Israel Free Trade Agreement (FTA). Normalization of ties is not popular with the Jordanian people, over half of whom are of Palestinian origin,<sup>52</sup> although King Abdullah II has attempted to control media and organizations opposed to normalization. Jordanian policy toward Israel may become subject to greater or more frequent public debate in Jordan if current Jordanian government efforts to respond to popular discontent result in a greater opening of the political system.

Believing that a two-state solution to the Israeli-Palestinian conflict would contribute to domestic and regional stability, the King supports the peace process and periodically hosts meetings between Israeli and Palestinian leaders. The King has opposed possible unilateral Israeli steps in the West Bank, fearing that they would strengthen Palestinian radicals who could destabilize the region and undermine his regime. After Hamas took over Gaza in June 2007, speculation revived

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<sup>49</sup> Joel Greenberg, "On Israel's uneasy border with Egypt, a fence rises," *Washington Post*, December 2, 2011.

<sup>50</sup> Dan Murphy, "Egypt pipeline attack raises questions about Sinai security," *Christian Science Monitor*, September 27, 2011.

<sup>51</sup> See also CRS Report RL33546, *Jordan: Background and U.S. Relations*, by Jeremy M. Sharp.

<sup>52</sup> Speculation over the ratio of East Bankers to Palestinians (those who arrived as refugees and immigrants since 1948) in Jordanian society tends to be a sensitive domestic issue. Jordan last conducted a national census in 2004, and it is unclear whether or not the government maintains such statistics. Over time, intermarriage has made it more difficult to discern distinct differences between the two communities, though divisions do persist.

concerning a possible union between Jordan and the West Bank, which some Israelis have long suggested as the ideal solution. In July 2007, King Abdullah firmly rejected the idea: “I say clearly that the idea of confederation or federation, or what is called administrative responsibility, is a conspiracy against the Palestinian cause, and Jordan will not involve itself in it.... The Jordanians refuse any settlement of the Palestinian issue at their expense.”<sup>53</sup> In 1988, the King’s father had relinquished Jordan’s previous claims to the West Bank (which it annexed, including East Jerusalem, following the 1948 Arab-Israeli war) and accepted the PLO as the sole body with a claim to the West Bank and Gaza.

## **Syria<sup>54</sup>**

Israel and Syria have fought several wars and, except for rare breaches, have maintained a military truce along their border for many years. Yet, they failed to reach a peace agreement in negotiations that ended in 2000. Since 1967, Israel has occupied Syria’s Golan Heights and, in December 1981, effectively annexed the region by applying Israeli law there. There are 42 Israeli settlements and over 19,000 settlers on the Golan. The United States has never recognized Israel’s annexation of the Golan Heights, which it views as a violation of international law. Some U.S. and Israeli officials have expressed belief that peace between Israel and Syria would be easier to achieve than peace between Israel and the Palestinians. Over the past decade, Israel has demanded that, before returning to peace talks with Syria, the Asad regime cease supporting Hezbollah in Lebanon, expel leaders of Hamas and other Palestinian rejectionist groups (i.e., those who reject an Israeli-Palestinian peace process and the existence of Israel) who have been headquartered in Damascus, and sever ties with Iran. Turkey brokered indirect Israel-Syria talks in 2008, but these collapsed after Israel’s attack on Hamas-controlled Gaza in December 2008.

Prospects of reduced Iranian influence in Syria as a result of the ongoing uprising may partly motivate Israeli government leaders who are predicting the imminent downfall of the Asad regime. Although Israel harbors concerns about the long-term political and security consequences of a potentially Sunni Islamist Syria at its border, it also sees benefits from Iran losing its biggest regional ally and a key support and supply channel to Hezbollah in Lebanon. Nevertheless, Israel may be concerned about regional spillover effects of violence in Syria or the possibility of a “last gasp” missile and/or chemical/biological weapons attack from the Asad regime directly or through Hezbollah or Palestinian militants in southern Lebanon.<sup>55</sup> Regardless of the political outcome in Syria, Israelis may perceive heightened importance for the Golan Heights as a buffer zone given greater political instability and potential hostility in bordering countries. They might, therefore, be as skeptical of the durability of a future land-for-peace deal with Syria involving the Golan as of one with the Palestinians involving the West Bank.

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<sup>53</sup> July 1 interview with *Al Ghad* newspaper, cited in Hassan M. Fattah, “Growing Talk of Jordanian Role in Palestinian Affairs,” *New York Times*, July 10, 2007.

<sup>54</sup> See also CRS Report RL33487, *Unrest in Syria and U.S. Sanctions Against the Asad Regime*, by Jeremy M. Sharp and Christopher M. Blanchard.

<sup>55</sup> See, e.g., Amos Harel and Avi Issacharoff, “In the eye of the observer,” *Ha’aretz*, January 6, 2012.



## Lebanon<sup>56</sup>

Israeli forces invaded Lebanon in 1982 to prevent Palestinian attacks on northern Israel. The forces gradually withdrew to a self-declared nine-mile “security zone,” north of the Israeli border. Peace talks in the 1990s failed to produce an Israel-Lebanon peace treaty, mainly because of Syria’s insistence that it reach an accord with Israel first. Israel unilaterally withdrew from southern Lebanon on May 25, 2000. Lebanon insists that the Israeli withdrawal is incomplete because of the continuing presence of Israeli forces in the Shib’a Farms area where the borders of Lebanon, Syria, and Israel meet. The U.N. has determined, however, that Israel’s withdrawal from Lebanon was complete and treats the Shib’a Farms as part of Syria’s Golan Heights occupied by Israel. Syria verbally recognizes that Shib’a is part of Lebanon, but will not demarcate the border officially as long as the Israeli occupation continues. Syria withdrew its occupation force from Lebanon in 2005. Hezbollah, widely viewed as a proxy of Syria and Iran, remains in Lebanon. Both the United States and Israel consider Hezbollah a terrorist organization, but it enjoys popular support in Lebanon, particularly among Shiites. Hezbollah also participates in Lebanese politics and holds cabinet positions in the Lebanese government.<sup>57</sup>

Hezbollah’s kidnapping of two Israeli soldiers on July 12, 2006, provoked Israel to launch a month-long war against Hezbollah in Lebanon. The war’s end provided a mixed outcome for Israel. Its leaders’ claims that the war has deterred Hezbollah from continuing provocative cross-border action are borne out by the durability of the cease-fire. The positions of Israeli forces at the end of the war were assumed by the Lebanese army and an enlarged U.N. Interim Force in Lebanon (UNIFIL) peacekeeping mission. Nevertheless, Hezbollah’s ability to survive militarily bolstered its political status as the only actor in Lebanon capable of defying Israel, and increased its regional popularity across sectarian lines. It used its postwar prestige first to solidify its ability to block Lebanese government actions it opposed, then to work in concert with its political allies to change the government and install Prime Minister Najib Miqati in early 2011.

Furthermore, Hezbollah has rearmed via smuggling networks from Syria. According to Israeli military officials quoted in the media, Hezbollah’s arsenal of tens of thousands of missiles include M-600 ballistic missiles with a 185-mile range and half-ton payload.<sup>58</sup> Reports dating from 2010 that Syria may have transferred Scud missiles to Hezbollah<sup>59</sup> have not been verified and have been questioned by U.S. officials.<sup>60</sup>

In August 2008, the Israeli security cabinet announced that it would hold the Lebanese government, which includes Hezbollah, “responsible for any event that takes place in its sovereign territory or events for which Lebanese nationals are responsible.”<sup>61</sup> Advocates of this policy argue that the new conditions improve Israel’s deterrent power as Hezbollah understands

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<sup>56</sup> For more information on Lebanon, see CRS Report R40054, *Lebanon: Background and U.S. Relations*, by Casey L. Addis.

<sup>57</sup> For more information on Hezbollah, see CRS Report R41446, *Hezbollah: Background and Issues for Congress*, by Casey L. Addis and Christopher M. Blanchard.

<sup>58</sup> Jonathan Lis and Amos Harel, “Syria gave advanced M-600 missiles to Hezbollah, defense officials claim,” *Haaretz* (Israel), May 5, 2010.

<sup>59</sup> U.S. Open Source Center (OSC) Report GMP20100411184001, “Syria Sends Scud Missiles to Hizballah, Israel Threatens War,” *Al Ra’y Online* (Kuwait), April 11, 2010.

<sup>60</sup> “U.S. Says Unclear if Hezbollah Took Scuds to Lebanon,” *Reuters*, April 16, 2010.

<sup>61</sup> “Israel: Lebanon is Responsible for Hezbollah’s Actions,” *Haaretz*, August 8, 2008.

the severe ramifications of the new situation should there be any action against Israel in Lebanon or overseas. Critics have expressed concerns that future conflict between Hezbollah and Israel is inevitable, and that the new policy might result in widespread destruction in Lebanon and could trigger a wider, regional conflict.<sup>62</sup>

## **Turkey**

Turkey-Israel relations blossomed in the mid-1990s. The two regional democracies then shared antipathy to Syria, developed closer trade ties, and Israel sold weapons and military equipment to Turkey. After the Islamist-rooted Justice and Development Party (AKP) came to power in Turkey in 2002, commentators predicted that bilateral relations would cool, but initially they generally continued as before, even after Turkey hosted Hamas politburo chief Khaled Meshaal in 2006.

The relationship worsened considerably after Israel's December 2008 invasion of the Gaza Strip disrupted indirect Israel-Syria talks that Turkey had been mediating. Turkish Prime Minister Recep Tayyip Erdogan felt personally insulted and politically blindsided by the Israeli invasion, having hosted then Israeli Prime Minister Ehud Olmert in Ankara just days before it began. Additionally, Erdogan used heated rhetoric—such as charges of “crimes against humanity”—to criticize Israel's conduct toward Palestinians during and after the 2008-2009 Gaza conflict, including a particularly public incident when he left the podium during a January 2009 public event with Israeli President Shimon Peres in Davos, Switzerland. Erdogan's words and actions led Israel to doubt Turkey's suitability for mediating future talks between Israel and Syria or other regional actors, and began affecting other aspects of bilateral relations such as joint military exercises.

Turkish-Israeli relations reached their lowest point as a result of Israel's May 2010 seizure in international waters of a Turkish ship—the *Mavi Marmara*—that was part of a flotilla intending to break Israel's blockade of the Gaza Strip and to deliver humanitarian aid. The incident resulted in the death of eight Turks and an American of Turkish origin. Turkey accused Israel of “state terror,” recalled its ambassador from Israel, cancelled joint military exercises as well as trilateral exercises in which U.S. forces participate, and banned Israeli military planes from its airspace. It demanded an apology, compensation for victims, and an international investigation. Israel withdrew its military advisers from Turkey, warned Israeli tourists against traveling there, and refused to apologize after maintaining that it had acted lawfully in self-defense and alleging that the flotilla's planners had terrorist links.

In September 2011, diplomatic efforts aimed at getting Israel to apologize to Turkey for the flotilla incident reportedly stalled due to Prime Minister Netanyahu's concerns about the potential Israeli public reaction.<sup>63</sup> When the report of the U.N. Secretary-General's panel of inquiry on the incident—also known as the “Palmer Report”<sup>64</sup>—was leaked by the *New York Times* and other outlets, Turkey announced that it was downgrading its diplomatic relations with Israel to the

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<sup>62</sup> See, e.g., “Drums of War: Israel and the ‘Axis of Resistance,’” International Crisis Group, August 2, 2010.

<sup>63</sup> The deaths took place under disputed circumstances.

<sup>64</sup> The report is available at <http://go.ynet.co.il/pic/news/Palmer-Committee-Final-report.pdf>. The panel was chaired by former New Zealand Prime Minister Sir Geoffrey Palmer, and included former Colombian President Alvaro Uribe and one participant each from Turkey and Israel. The report expressly provided that its findings were not intended to decide legal questions. Upon the report's leak, Turkish officials disputed the report's finding that Israel's naval blockade of the Gaza Strip was legal, notwithstanding the report's criticism of Israel's handling of the incident itself.

second secretary level—effectively expelling Israel’s ambassador to Turkey.<sup>65</sup> It also suspended all Turkey-Israel military agreements. The countries’ bilateral free trade agreement remains in effect.

Turkey continues to insist on both an apology and compensation from Israel for families of the Turkish fatalities in return for the possibility of normalization. It also seeks a lifting of the Israeli naval blockade on the Gaza Strip. Erdogan spoke of the possibility of having Turkish naval vessels accompany future aid flotillas to Gaza, but subsequently said that no plans for such voyages were imminent. Erdogan also speculated that international sanctions against Israel could be a source of leverage in solving the Israeli-Palestinian conflict.<sup>66</sup> Though Erdogan supports a negotiated two-state solution to the conflict, he backs Palestinian pursuit of United Nations membership and Fatah-Hamas rapprochement as well.

The breach with Israel has affected Turkey’s profile in Congress. Following the flotilla incident, the Senate passed S.Res. 548 by voice vote on June 24, 2010. The resolution condemned the attack by the “extremists aboard the Mavi Marmara,” invoked Israel’s right to self-defense, and encouraged “the Government of Turkey to recognize the importance of continued strong relations with Israel and the necessity of closely scrutinizing organizations with potential ties to terrorist groups.”<sup>67</sup> A January 2011 *New York Times Magazine* article quotes Selim Yenel, a Turkish Foreign Ministry deputy undersecretary responsible for U.S. relations, as saying, “We’re getting a lot of flak from the Hill. We used to get hit by the Greek lobby and the Armenian lobby, but we were protected by the Jewish lobby. Now the Jewish lobby is coming after us as well.”<sup>68</sup> The closer convergence of U.S. and Turkish interests on regional developments since late 2010, especially with respect to the uprising in Syria and to Turkey’s hosting of a U.S. radar for a NATO-approved missile defense system, may be softening congressional concerns about Turkey’s regional policies and alignment.

Whether ongoing political change in the Arab world will significantly impact the Turkey-Israel relationship is not yet clear. Turkey is less likely to be flexible in its demands of Israel if it perceives that its leverage has increased due to (1) diminished reliability of Israel’s peace treaties with Egypt and Jordan and (2) potential for anti-Israel sentiment to gain political traction in the region. It is debatable whether an active U.S. brokering role will improve or worsen prospects for Turkey-Israel rapprochement and for future U.S. relations with both countries. In a December 2011 speech, Secretary of Defense Leon Panetta said:

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<sup>65</sup> Turkey similarly downgraded diplomatic relations with Israel in 1980 following Israel’s enactment of a law on the status of Jerusalem that was deemed a violation of international law by U.N. Security Council Resolution 478. Resolution 478 passed on August 20, 1980 by a vote of 14-0, with the United States as the lone abstention. Turkey reinstated Israel’s ambassador in 1992 following the 1991 Madrid Conference that signaled the beginning of the Middle East peace process. Linda Gradstein, “No end in sight for downward spiral in Turkish-Israeli ties,” *JTA*, September 6, 2011.

<sup>66</sup> *Time* magazine staff interview with Turkish Prime Minister Recep Tayyip Erdogan, *globalspin.blogs.time.com*, September 26, 2011.

<sup>67</sup> In the House, Representative Dina Titus sponsored H.Res. 1599, which was referred to the House Foreign Affairs Committee in July 2010 and garnered 23 co-sponsors. H.Res. 1599 called upon the Secretary of State to investigate the “role of any foreign governments, including the Republic of Turkey, which may have aided and abetted the organizers of the recent Gaza Flotilla mission to breach Israeli coastal security and assault the naval defense forces of the state of Israel.”

<sup>68</sup> James Traub, “Turkey’s Rules,” *New York Times Magazine*, January 20, 2011.

Like all of you, I've been deeply troubled by the direction of the Turkish-Israeli relationship. Turkey is a key NATO ally and has proven to be a real partner in our effort to support democratic change and stand against authoritarian regimes that use violence against their own people. It is in Israel's interest, Turkey's interest, and U.S. interest, for Israel to reconcile with Turkey. And both Turkey and Israel need to do more to put their relationship back on the right track.<sup>69</sup>

## Issues Affecting U.S.-Israel Relations

### Overview

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 developed close bilateral ties based on common democratic values, religious affinities, and security interests. Relations have evolved through legislation; memoranda of understanding; economic, scientific, military agreements; and trade. Congress strongly supports U.S. commitments to Israel's security through military assistance and other legislation. 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>70</sup>

### U.S. Security Guarantees for Israel?

Although the United States and Israel do not have a mutual defense agreement,<sup>71</sup> successive Administrations have either stated or implied that Israel's security is guaranteed by the United States. 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 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."<sup>72</sup> In a February 2012 column in which he claimed that Secretary of Defense Leon Panetta believes there is a "strong likelihood" that Israel will strike Iran's nuclear facilities in the spring of 2012, David Ignatius of the *Washington Post* wrote:

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<sup>69</sup> 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>70</sup> Malka, op. cit., pp. 93-94.

<sup>71</sup> The United States and Israel do, however, have a Mutual Defense Assistance Agreement (TIAS 2675) in effect, dated July 23, 1952 (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>72</sup> Seymour M. Hersh, "The Iran Plans," *The New Yorker*, April 17, 2006.

Administration officials caution that Tehran shouldn't misunderstand: The United States has a 60-year commitment to Israeli security, and if Israel's population centers were hit [presumably as part of an Iranian retaliation], the United States could feel obligated to come to Israel's defense.<sup>73</sup>

Both houses of Congress routinely introduce and pass 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." 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.

Chuck Freilich, 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 Freilich 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>74</sup>

Perhaps at least partly due to some of the reasons Freilich 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 (see "Security Cooperation" below).

A 2011 book by Haim Malka, deputy director for the Middle East program at the Center for Strategic and International Studies (CSIS), provides historical background on discussions within the United States about extending formal security guarantees to Israel:

The idea of a formal alliance goes back to the early 1950s, when Israel's founders sought a defense alliance with a great power. The former editor of *Foreign Policy*, Richard H. Ullman, floated the idea seriously in the 1970s, suggesting that security guarantees would "give the Israelis the assurances they will need to withdraw from the occupied territory, and to persuade the Palestinians that the cause of Palestinian irredentism is forever beyond reach." Ullman emphasized the important psychological and deterrent components, writing that those assurances would not make the United States responsible for Israel's security, but rather "would be to signal to Israel's neighbors that the forces behind Israel's defense would be, in effect, inexhaustible." The idea has been raised every few years since—in the waning

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<sup>73</sup> David Ignatius, "Of a mind to attack Iran," *Washington Post*, February 3, 2012.

<sup>74</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.

days of the Clinton administration, during President Clinton's last-ditch effort to broker Israeli agreements with Syria and the Palestine Liberation Organization, and through internal Israeli government discussions in 2007 and 2010. Right now, in Washington, there is little visible interest in pursuing it.<sup>75</sup>

Malka's book does say that a vocal minority in Israel supports a more formal U.S. security commitment, and then describes some of the potential benefits and drawbacks for both countries.<sup>76</sup>

## **U.S. Aid and Arms Sales to Israel<sup>77</sup>**

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 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 60% of total FMF and 20% of Israel's defense budget. A 10-year bilateral memorandum of understanding commits the United States to \$3.075 billion in FMF to Israel in FY2012, increasing to \$3.1 billion annually from FY2013 to FY2018 subject to continuing congressional appropriations. Congress routinely provides hundreds of millions of dollars in additional annual assistance for Israeli or joint U.S.-Israeli missile defense programs (\$235.7 million for FY2012—see “Cooperative Missile Defense and Iron Dome” below). The United States also generally provides some annual American Schools and Hospitals Abroad (ASHA) funding and funding to Israel for migration assistance.

Israel uses approximately 75% of its FMF to purchase arms from the United States. Reported past arms purchases include several variants of smart, “bunker-buster” bombs (such as the GBU-27, GBU-28, and GBU-39) that could be used to strike underground terrorist command centers (presumably aimed at Hezbollah bunkers in Lebanon) or possibly underground nuclear facilities (presumably aimed at Iranian uranium enrichment facilities).<sup>78</sup> Israel has been the first country to receive these bombs from the United States, with the first congressional notifications occurring in the mid-2000s.

After years of negotiation, the United States and Israel announced in 2010 that Israel will purchase 19 F-35 Joint Strike Fighters, the fifth-generation stealth aircraft considered to be the most technologically-advanced fighter jet ever made, at a cost of \$2.75 billion.<sup>79</sup> Israel may purchase additional squadrons of F-35s in the future and has received U.S. approval to purchase

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<sup>75</sup> Malka, *op. cit.*, p. 84.

<sup>76</sup> *Ibid.*, pp. 84-89.

<sup>77</sup> For more details, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

<sup>78</sup> However, according to one report, the GBU-28 and GBU-39 may not have sufficient strike capacity to damage Iranian underground nuclear targets such as the Fordow uranium enrichment plant (near the city of Qom), which is reportedly buried nearly 250 feet inside a mountain. The United States Air Force possesses the 30,000-pound class Massive Ordnance Penetrator, a bomb which is made by Boeing, delivered on a B-2 Stealth bomber, and designed to penetrate depths of up to 200 feet of reinforced concrete. “ANALYSIS-Iran nuclear sites may be beyond reach of ‘bunker busters’,” *Reuters*, January 12, 2012.

<sup>79</sup> In 2010, during intense Obama Administration negotiations with the Israeli government over a possible Israeli settlement freeze in the West Bank, the Administration had reportedly unsuccessfully offered Israel, among other things, 20 additional F-35s in exchange for a 90-day moratorium on settlement construction.

up to 75 aircraft.<sup>80</sup> Prior to the agreement, both sides had negotiated over the level of Israeli customization of the F-35. Reportedly, a June 2010 Letter of Acceptance indicated that Israel will be able to install its own radio and datalink systems, and discussions over the integration of electronic warfare capabilities will continue and may be approved should Israel purchase additional planes.<sup>81</sup> As part of the deal, the United States reportedly agreed to make reciprocal purchases of equipment from Israel's defense industries estimated at \$4 billion.<sup>82</sup> Due to delays in the overall F-35 program, the expected delivery of the aircraft to Israel has been delayed. While waiting for delivery of the F-35s, Israel may choose to upgrade its existing F-15 and F-16 fighters.

Additionally, Israel continues to receive Excess Defense Articles (EDA).<sup>83</sup> The Defense Security Cooperation Agency (DSCA) manages the EDA program, which enables the U.S. to reduce its inventory of outdated equipment by providing friendly countries with necessary supplies at either reduced rates or at no charge.<sup>84</sup> From 2001 to the present, Israel has been authorized over \$330 million in EDA.

Strong congressional support for Israel has resulted in Israel's receiving benefits not available to other countries. For example, Israel can use some U.S. military assistance both for research and development in the United States and for military purchases from Israeli manufacturers. In addition, all U.S. foreign assistance earmarked for Israel is delivered in the first 30 days of the fiscal year. Most other recipients normally receive aid in installments.

U.S. lawmakers continue to grapple with the question of how to reduce the U.S. budget deficit and national debt. Some Members of Congress see foreign affairs funds, particularly for foreign aid programs, as expenditures that can be cut in order to reduce annual budget deficits. Some Members have called for phasing out foreign assistance entirely. Though many leaders have exempted aid to Israel from such plans, widespread opposition to U.S. foreign aid in general has caused some Israel advocates concern.<sup>85</sup> In March 2011, the American Israel Public Affairs Committee (AIPAC) published a memorandum asserting that foreign aid is "an essential component of America's national security strategy."<sup>86</sup> Although it may be too early to predict which countries or functional accounts may be affected by possible aid reductions in the coming years, the anticipation of changes to aid levels may spur diplomatic negotiations over future

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<sup>80</sup> DSCA's notification to Congress of the F-35 sale is available online at [http://www.dsca.mil/PressReleases/36-b/2008/Israel\\_08-83.pdf](http://www.dsca.mil/PressReleases/36-b/2008/Israel_08-83.pdf).

<sup>81</sup> "Defense Minister Barak approves purchase of 20 F-35 fighters for around \$2.75 billion," *Ha'aretz*, August 16, 2010.

<sup>82</sup> "Israel set to build wings for some 800 F-35s," *Reuters*, August 30, 2010.

<sup>83</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>84</sup> To access DSCA's Excess Defense Articles database, see <http://www.dsca.mil/programs/eda/search.asp>.

<sup>85</sup> In December 1985, Congress passed P.L. 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985, otherwise known as Gramm-Rudman-Hollings. The law enacted across-the-board budget cuts through a process of sequestration for FY1986 and beyond. That year all foreign aid accounts, including Israel's, 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, the government of Israel ended up "voluntarily" returning a total of \$128.6 million in FY1986 economic (\$51.6 million) and military aid (\$77 million) to the United States Treasury. See, "Israel may not Suffer as Much as Other Nations from Painful Budget Cuts," *Washington Post*, January 15, 1986.

<sup>86</sup> Available at

[http://www.aipac.org/~media/Publications/Policy%20and%20Politics/AIPAC%20Analyses/Issue%20Memos/2011/03/AIPAC\\_Memo\\_Foreign\\_Aid\\_Keeps\\_America\\_Safe\\_Strong\\_and\\_Prospereous.pdf](http://www.aipac.org/~media/Publications/Policy%20and%20Politics/AIPAC%20Analyses/Issue%20Memos/2011/03/AIPAC_Memo_Foreign_Aid_Keeps_America_Safe_Strong_and_Prospereous.pdf).

assistance. It is possible that both parties may attempt to restructure U.S. assistance without jeopardizing U.S. efforts to maintain Israel's "qualitative military edge" (QME). It is also possible that the U.S. aid program to Israel may continue without restructuring due to broad public support and the need to counter continuing, emerging, and worsening threats in the region.

**Table 4. Recent U.S. Assistance 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	—	40.0	3.90	—
2009	2,583.9	2,550.0	—	30.0	3.90	—
2010	2,803.8	2,775.0	—	25.0	3.80	—
2011	3,029.22	3,000.0	—	25.0	4.225	—
2012	3,095.0	3,075.0	—	20.0	—	—
<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:** ESF was earmarked for \$960 million for FY2000 but was reduced to meet a 0.38% rescission. FY2000 military grants include \$1.2 billion for the Wye agreement and \$1.92 billion in annual military aid. Final amounts for FY2003 are reduced by 0.65% mandated rescission and for FY2004 by 0.59%.

Loan guarantees are not included in the tables because they do not represent a transfer of funds, but rather a promise of ultimate U.S. responsibility for loans to Israel from commercial institutions.

## Loan Guarantees

Since 1972, the United States has extended loan guarantees to Israel to assist with housing shortages, Israel's absorption of new immigrants from the former Soviet Union and Ethiopia, and its economic recovery following a 2000-2003 recession that was sparked by the second Palestinian intifada (uprising). Loan guarantees are a form of indirect U.S. assistance to Israel, since they enable Israel to borrow from commercial sources at lower rates. Israel has never defaulted on a U.S.-backed loan. According to the U.S. Treasury Department, Israel is legally obligated to use the proceeds of guaranteed loans for refinancing its government debt and also has



agreed that proceeds shall not be used for military purposes or to support activities in the West Bank (including East Jerusalem) and Gaza. However, U.S. officials note that since Israel's national budget is fungible, proceeds from the issuance of U.S.-guaranteed debt that are used to refinance Israeli government debt free up domestic Israeli funds for other uses.<sup>87</sup>

The current authorization of Israel's loan guarantee program will expire at the end of FY2012. A 2011 internal report by the State Department's Office of Inspector General reportedly recommended that the loan guarantee program be terminated, given Israel's economic strength.<sup>88</sup> However, according to a more recent report in Israel's *Ha'aretz* newspaper, the Obama Administration may seek a three-year extension of the program from Congress.<sup>89</sup> Israel currently is authorized to borrow \$3.8 billion in loan guarantees. According to one Israeli official, "We consider the loan guarantees as preparation for a rainy day.... This is a safety net for war, natural disaster and economic crisis, which allows Israel to maintain economic stability in unstable surroundings."<sup>90</sup>

Loan guarantees figured prominently in the U.S.-Israel diplomatic standoff over Israeli settlements between President George H.W. Bush and Prime Minister Yitzhak Shamir in 1991.<sup>91</sup> Although some U.S. officials have hinted at their possible use as leverage on Israel regarding its participation in negotiations with the Palestinians, Israel has become significantly more economically self-sufficient in the intervening 20 years, and the possibility has been openly rejected by at least one Member of Congress.<sup>92</sup>

## Security Cooperation<sup>93</sup>

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 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

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<sup>87</sup> CRS correspondence with the U.S. Treasury Department's Office of International Affairs, October 2009.

<sup>88</sup> "U.S. report recommends ending loan guarantees to Israel at end of 2011," *Ha'aretz*, July 28, 2011.

<sup>89</sup> Barak Ravid, "U.S. to grant three-year extension of loan guarantees to Israel," *Ha'aretz*, January 25, 2012.

<sup>90</sup> *Ibid.*

<sup>91</sup> Bush refused to provide Shamir with \$10 billion in requested loan guarantees to absorb immigrants from the Soviet Union without assurances that Israel would stop settlement building beyond the pre-1967 armistice lines. Many analysts believe that the disagreement led to Shamir's ouster from power in 1992. Bush eventually agreed to provide the guarantees to Shamir's successor, Yitzhak Rabin, while reserving the option to deduct from the loan guarantees any amounts Israel spent on settlements.

<sup>92</sup> After then U.S. Special Envoy for Middle East Peace George Mitchell raised loan guarantees as a possible point of leverage in January 2010, Senator Joseph Lieberman responded, during a trip to Jerusalem, "Any attempt to pressure Israel, to force Israel to the negotiating table by denying Israel support, will not pass in Congress.... Congress will act against any attempt to do that. I don't think it will come to this point."

<sup>93</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>.

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.

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.-Israeli 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.

### **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 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, also 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 that requires 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>94</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.

- In July 2007, Israel’s then-Prime Minister Ehud Olmert stated that his government had received, “a detailed and explicit commitment” from the United States “to ensure [Israel’s] qualitative military edge over the Arab states.”<sup>95</sup>
- During an October 2007 visit to Washington, DC, Israeli Defense Minister Ehud Barak stated that Israel has “understandings and arrangements with the Administration that make us confident that Israel’s military qualitative edge will be kept.”<sup>96</sup>
- In July 2010, U.S. Assistant Secretary of State for Political-Military Affairs Andrew Shapiro noted the 2008 change in U.S. law and stated “one of my primary responsibilities is to preserve Israel’s Qualitative Military Edge, or QME.”<sup>97</sup>
- In September 2010, the Defense Security Cooperation Agency (DSCA) notified Congress of plans to sell up to 25 F-35 Joint Strike Fighters to Israel, with an option for 50 more, at a potential total cost of \$15.2 billion with delivery beginning in 2014. On October 7, 2010, Israeli Maj. Gen. (res.) Udi Shani signed an agreement with the United States for the Israel Defense Forces to purchase their first squadron of F-35 joint strike fighter aircraft, which are to be delivered beginning in 2015. Shani stated, “this is a historic event and a new era in Israel’s security and strategic strength which will allow Israel to maintain its military qualitative edge in order to cope with the challenges both near and far for many years.” He added, “We have an option to purchase more aircrafts (sic)... (T)he deal is an additional expression of the strategic alliance and of our friendly relations with the United States, and of their support of the Israeli qualitative edge.”<sup>98</sup>
- In response to a November 2010 letter from 198 Members of Congress expressing concern about the proposed sale of new and upgraded F-15 fighter jets to Saudi Arabia, Secretary of State Hillary Clinton and Secretary of Defense Robert Gates reaffirmed that the United States commitment to Israel’s QME is

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<sup>94</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>95</sup> Yaakov Katz, “Jerusalem Wary of U.S. Arms Sale to Saudis,” *Jerusalem Post*, July 30, 2007.

<sup>96</sup> Nathan Guttman, “Contradictory Signals From Israel and its Supporters on Saudi Arms Deal,” *Forward*, October 24, 2007.

<sup>97</sup> U.S. Department of State, Assistant Secretary for Political-Military Affairs Andrew J. Shapiro, “The Obama Administration’s Approach to U.S.-Israel Security Cooperation: Preserving Israel’s Qualitative Military Edge,” Remarks at the Brookings Saban Center for Middle East Policy, Washington, DC, July 16, 2010.

<sup>98</sup> Israel Defense Forces, “Final Agreement Signed for the Purchase of F-35 Fighters,” States News Service, October 8, 2010.

“rock solid.”<sup>99</sup> Their comments reinforced an October 20 statement by Assistant Secretary of Defense for International Security Affairs Alexander Vershbow asserting that Israel did not object to the Saudi sale.<sup>100</sup>

- In November 2011, Assistant Secretary Shapiro made another speech in support of preserving Israel’s QME, saying that it is “critical to regional stability and as a result is fundamentally a core interest of the United States.”<sup>101</sup>

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>102</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, Iraq, and Turkey—could become increasingly subject to challenge both by Israeli officials feeling heightened sensitivity to regional threats and by sympathetic U.S. policymakers.

### Cooperative Missile Defense and Iron Dome<sup>103</sup>

Congress and successive Administrations have shown strong support for joint U.S.-Israeli missile defense projects. U.S.-Israeli missile defense cooperation has perennially been authorized and appropriated in defense authorization and appropriations bills. Missile defense cooperation is generally not considered a form of direct aid, but many U.S. and Israeli observers consider it a vital component of Israel’s strategic relationship with the United States. Israel and the United States each financially contribute to several projects and share technology from co-developed weapons systems.

Shortly after the start of SDI in 1985, the Reagan Administration sought allied political support through various cooperative technology agreements on ballistic missile defense (BMD). An MOU was signed with Israel on May 6, 1986 to jointly develop an indigenous Israeli capability to defend against ballistic missiles.<sup>104</sup> Israeli interest in BMD was strengthened by what it witnessed in the missile war between Iran and Iraq in the later 1980s, and what Israel experienced when it was attacked by Scud missiles from Iraq during Operation Desert Storm in 1991.

Under the 1986 agreement allowing Israel to participate in SDI, the United States and Israel have co-developed different versions of the Arrow anti-ballistic missile. The total U.S. financial

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<sup>99</sup> Letter from Secretary of State Clinton and Secretary of Defense Gates to Hon. Howard Berman, November 16, 2010.

<sup>100</sup> Andrew J. Shapiro, Assistant Secretary of State for Political-Military Affairs and Alexander Vershbow, Assistant Secretary of Defense for International Security Affairs, Briefing on Pending Major Arms Sale, Washington, DC, October 20, 2010.

<sup>101</sup> Remarks by U.S. Assistant Secretary of State for Political-Military Affairs Andrew Shapiro, Washington Institute of Near East Policy, Washington, DC, November 4, 2011, available at <http://www.state.gov/t/pm/rls/rm/176684.htm>.

<sup>102</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>103</sup> For more information on this subject, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

<sup>104</sup> Subsequently, a number of additional agreements were signed, including, for example: an April 1989 Memorandum of Agreement (MOA) to develop an Israeli computer facility as part of the Arrow BMD program, a June 1991 agreement to develop a second generation Arrow BMD capability, and a September 2008 agreement to develop a short-range BMD system to defend against very short-range missiles and rockets.

contribution so far exceeds \$1 billion. The system became operational in 2000 in Israel and has been tested successfully. The Defense Department's Missile Defense Agency has agreed to extend the U.S.-Israel Arrow System Improvement Program (ASIP) and post-ASIP through 2013. Since 2001, Israel and the United States have conducted a joint biennial exercise, called Juniper Cobra, to work on integrating their weapons, radars, and other systems. Recent exercises have been seen as a signal to discourage "enemies," which most observers interpret to include Iran.<sup>105</sup> Another ongoing co-developed project is David's Sling (also known as Magic Wand), which is designed to counter medium-range (40 km to 300 km) threats. Until David's Sling can be deployed, Israel relies on Patriot Advanced Capability-3 (PAC-3) missile defense batteries that it purchases from the United States.<sup>106</sup>

One of the most significant gestures of U.S. support for Israel's missile defense architecture has been the deployment of the AN/TPY-2 X-Band radar system (built by Raytheon Co.) to Israel in late 2008. Not only is the X-Band system far more capable of detecting incoming missiles than Israel's existing radar,<sup>107</sup> but the United States has also linked the X-Band to its global network of satellites in the U.S. Defense Support Program (DSP). The DSP is the principal component of the U.S. Satellite Early Warning System to detect missile launches.<sup>108</sup> The X-Band system remains U.S.-owned and is operated by U.S. troops and defense contractors—the first indefinite U.S. military presence to be established on Israeli soil. Reportedly, the system has been deployed to a secret location in the southern Negev desert close to the Egyptian border. Another U.S. X-Band system was deployed in eastern Turkey in late 2011 and some reports indicate that the information it collects could potentially be made available for Israel's defense from potential ballistic missile threats.<sup>109</sup>

Israel faces a continuing rocket threat from Gaza and from its northern border with Lebanon. Both areas were subject to extended Israeli military occupation followed by unilateral disengagement. Periodic rocket and mortar attacks from Palestinian militants in Gaza, including from Islamist groups reported to be more radical than Hamas, were countered in 2011 with considerable success by Israel's new short-range Iron Dome missile defense system. Pursuant to the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10), Congress made an appropriation of \$205 million toward Israel's procurement of additional Iron Dome batteries—each estimated to cost \$50 million.<sup>110</sup> During April, August, and October 2011, Israel deployed Iron Dome batteries to protect the cities of Beersheba, Ashdod, and Ashkelon. According to one report, Iron Dome interceptors succeeded 70% of the time they were fired in destroying incoming projectiles from Gaza.<sup>111</sup> The Israeli military discovered that a radar failure had caused some of the misses and have since resolved the malfunction.

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<sup>105</sup> Irene R. Prusher, "To Defend Against Iran Missiles, US and Israel Conduct Joint Exercises," *Christian Science Monitor*, October 29, 2009.

<sup>106</sup> Yaakov Katz, "IDF upgrades Patriot missile battery," *Jerusalem Post*, November 27, 2011.

<sup>107</sup> The X-Band system can detect incoming missiles from 500-600 miles. Currently, Israel's early warning system is only able to detect missiles from 100 miles out.

<sup>108</sup> Israel was first given access to DSP in 2001 but only on a per-request, rather than constant, basis.

<sup>109</sup> Josh Rogin, "Amid tensions, U.S. and Turkey move forward on missile defense," *thecable.foreignpolicy.com*, September 19, 2011.

<sup>110</sup> CRS conversations with Israeli officials, April 2011. According to these same conversations, each Iron Dome interceptor projectile costs between \$80,000 and \$90,000.

<sup>111</sup> "Iron Dome hits 70% of militant rockets," *Jane's Defence Weekly*, January 6, 2012.

However, Israeli leaders have cautioned that missile defense systems are not capable of fully protecting Israeli population centers in the event of intensified, sustained attacks from its enemies. The Iron Dome system is not designed to protect against shorter range mortars and rockets due to their abbreviated flight times, leaving communities in the immediate vicinity of the Gaza border—such as Sderot (estimated population: 21,000) more vulnerable. The Israeli military plans to deploy a total of nine Iron Dome batteries<sup>112</sup> across the country by 2013. It believes it requires a total of between 10-15 batteries total to adequately protect most urban areas. Israel is reportedly considering exporting the system to customers in Asia (such as South Korea, Singapore, and India) in order to recoup Iron Dome's cost.

### **Emergency U.S. Stockpile in Israel**

In the early 1980s, Israeli leaders sought to expand what they called their “strategic collaboration” with the United States military by allowing U.S. arms and equipment to be stockpiled at Israeli bases for use in wartime.<sup>113</sup> Nearly a decade later, the United States agreed to establish munitions stockpiles in Israel for use by the United States and, with U.S. permission, for use by Israel in emergency situations. The United States European Command (EUCOM) manages the War Reserves Stock Allies-Israel (WRSA-I) program. The United States stores missiles, armored vehicles and artillery ammunition in Israel. According to one Israeli officer, “Officially, all of this equipment belongs to the US military.... If however, there is a conflict, the IDF can ask for permission to use some of the equipment.”<sup>114</sup> During the 2006 war against Hezbollah in Lebanon, the United States granted Israel access to the stockpile. In the 111<sup>th</sup> Congress, lawmakers passed P.L. 111-266, the Security Cooperation Act of 2010. Section 302 of the Act amends the Department of Defense Appropriations Act, 2005 to extend the President's authority to transfer to Israel surplus defense items that are stockpiled in Israel and intended for use as Israeli reserve stocks. According to various reports, this amendment will increase the value of U.S. materiel stored in Israel from \$800 million to \$1.2 billion.<sup>115</sup>

### **Sensitive Defense Technology and Intelligence Issues**

Any arms sales, information sharing, or co-development of technology between the United States and Israel raise 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>116</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.

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<sup>112</sup> Each Iron Dome battery contains three launchers each equipped with 20 Tamir interceptor missiles. See “Rafael and Raytheon collaborate on Iron Dome project,” *Jane's Defence Weekly*, August 17, 2011; “Iron Dome anti-rocket system was never meant to protect Israeli towns,” *Ha'aretz*, December 21, 2010.

<sup>113</sup> “U.S.-Israel Strategic Link: Both Sides Take Stock,” *New York Times*, October 2, 1981.

<sup>114</sup> “US may give Israel Iraq Ammo,” *Jerusalem Post*, February 11, 2010.

<sup>115</sup> “US to boost weapons stockpile in Israel,” *Agence France Presse*, November 11, 2010.

<sup>116</sup> 22 U.S.C. §2785.

## Israeli Arms Sales to Other Countries

Israel is a major arms exporter—with India, China, and Russia among its customers or past customers.<sup>117</sup> The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China. As of 2005, Israel was reportedly China's second major arms supplier, after Russia.<sup>118</sup> In the late 1990s, the Office of Naval Intelligence (ONI) reported that China had acquired U.S. technology “through Israel in the form of the Lavi fighter and possibly SAM [surface-to-air missile] technology,”<sup>119</sup> although Chinese and Israeli officials have repeatedly denied that such technology was shared.

In 2000, the United States persuaded Israel to cancel the sale of the Israeli-built Phalcon—an advanced, airborne early-warning system—to China.<sup>120</sup> In 2003, however, Israel's agreement to upgrade radar-seeking Harpy Killer drones that it sold to China in 1999 dismayed the Department of Defense (DoD). China tested the weapon over the Taiwan Strait in 2004. 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. In the coming months additional steps will be taken to restore confidence fully.”<sup>121</sup> 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>122</sup> In June 2005, the Israeli newspaper *Ha'aretz* reported that Israel would voluntarily adhere to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, without actually being a party to it.<sup>123</sup>

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<sup>117</sup> Other customers for Israeli arms include Germany, Spain, France, Canada, Australia, Turkey, Singapore, Brazil, Italy, the Netherlands, Poland, and Romania.

<sup>118</sup> Ron Kampeas, “Israel-U.S. Dispute on Arms Sales to China Threatens to Snowball,” *Jewish Telegraphic Agency*, June 8, 2005, citing a U.S.-China Economic and Security Review 2004 report.

<sup>119</sup> ONI, *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>120</sup> In April 2000, Representative Sonny Callahan, Chairman of the House Appropriations Subcommittee on Foreign Operations, Export Financing, and Related Programs, sought to withhold \$250 million, equivalent to the value of the Phalcon sale, from almost \$3 billion in U.S. economic and military aid to Israel, if Israel transferred the Phalcon to China. See Eric Pianin, “Israel-China Radar Deal Opposed,” *Washington Post*, April 7, 2000.

<sup>121</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>122</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.”

<sup>123</sup> Ze'ev Schiff, *et al.*, “Bowing to U.S. pressure, Israel to curb arms deals,” *Ha'aretz*, June 26, 2005. The participants (continued...)

On July 17, 2007, the Israeli Knesset passed a Law on Control of Defense Exports that established a new authority in the Defense Ministry to oversee defense exports—involving the Foreign Ministry for the first time in the process. As a result, the United States agreed to establish a High Technology Forum to institutionalize senior-level U.S.-Israel dialogue to address bilateral high technology trade, investment, and related issues.

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>124</sup> In 2010, the United States resumed discussions with Israel over a possible Heron sale to Russia. Reports indicate that Israel Aerospace Industries and Russian arms maker Oboronprom signed a \$400 million joint venture agreement in October 2010 for the manufacture of Heron-1 reconnaissance drones at a facility in Russia, possibly beginning in mid-2011. These 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. Russia reportedly covets the opportunity to acquire and possibly manufacture the Heron TP drone, which has more advanced capabilities and can fire air-to-surface missiles. 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.<sup>125</sup>

India is presently the best customer for Israeli arms and Israel is the second largest arms supplier for India. India's first purchase was of early warning radars in 2004. Highlights include the Phalcon and reportedly the Barak-8 tactical defense system.<sup>126</sup> Israel has supplied India with two Green Pine radar systems as well as avionics systems to upgrade Indian jet fighters.

In January 2012, various news outlets reported that the Israeli defense company Israel Aerospace Industries (IAI) will sell weapons worth between \$1.1 billion to \$1.6 billion to an undisclosed Asian country over the next four years. The sale includes IAI aircraft, missiles and intelligence technologies.

## **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:

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(...continued)

to the Wassenaar Arrangement have agreed to (1) maintain national export controls on certain conventional arms and dual-use goods and technologies, (2) report on transfers and denials of specified controlled items to destinations outside the Arrangement, and (3) exchange information on sensitive dual-use goods and technologies. Participants include the United States and 39 other countries (including Russia, Japan, South Korea, Australia, New Zealand, South Africa, Canada, and most European countries). More information is available at <http://www.wassenaar.org/>.

<sup>124</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>125</sup> The sources for the material in most of this paragraph are "Procurement, Russian Federation," *Jane's Sentinel Security Assessment – Russia and the CIS*, January 29, 2012; Spencer Ackerman, "Will Israel Sell Russia Its Prized Monster Drone?" *Wired.com*, January 18, 2011.

<sup>126</sup> Yiftah S. Shapir, "Israel's Arms Sales to India," *Strategic Assessment*, Vol. 12, No. 3, November 2009, available at <http://www.inss.org.il/upload/%28FILE%291259664485.pdf>.



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 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>127</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 Israel’s use of U.S. supplied cluster munitions 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>128</sup>

In 2008, after several Israeli internal investigations into its 2006 use of cluster munitions in Lebanon and congressional action<sup>129</sup> to attempt to restrict the overall export of the munitions, Israel announced that it would begin purchasing Israeli-made M85 cluster bombs rather than U.S.-manufactured bomblets. The M85 was developed by Israel Military Industries (IMI) and it is generally considered to be more reliable than U.S.-made cluster munitions. However, one Norwegian study asserted that the failure rate of M85 submunitions was closer to 10% than the 1% rate claimed by its proponents.<sup>130</sup>

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<sup>127</sup> Sean McCormack, U.S. Department of State Spokesman, Daily Press Briefing, Washington, DC, January 29, 2007.

<sup>128</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>129</sup> The Consolidated Appropriations Act, 2008 (P.L. 110-161), enacted on December 26, 2007, significantly restricted the export of U.S.-manufactured cluster munitions. On September 6, 2007, President George W. Bush objected to efforts by lawmakers to ban the export of cluster munitions. In a statement of Administration policy, the President wrote, “The Administration also objects to restrictions on providing military assistance for cluster munitions.... Currently, the sales of cluster munitions are subject to safeguards. See, “Statement of Administration Policy, H.R. 2764 – State, Foreign Operations, and Related Programs Appropriations Act, 2008,” Office of Management and Budget, September 6, 2007. 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.”

<sup>130</sup> M85, Analysis of Reliability, available online at <http://www.npaid.org/filestore/M85.pdf>. A higher failure rate for submunitions leads to a greater amount of unexploded ordnance that might ultimately harm individuals not targeted.

## **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.

- In 1986, Jonathan Pollard, a civilian U.S. naval intelligence employee, and his wife Anne pled guilty to selling classified documents to Israel. Four Israeli officials also were indicted in connection with the case. 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.
- In 2006, U.S. Department of Defense analyst Lawrence Franklin pled guilty to disclosing classified information to an Israeli diplomat and to two pro-Israel lobbyists from the American Israel Political Action Committee (AIPAC). The information was about Al Qaeda, U.S. policy toward Iran, and the 1996 bombing of the Khobar Towers, a U.S. military housing site in Saudi Arabia. The lobbyists, who had been fired by AIPAC, were the first non-government employees ever indicted under the 1917 Espionage Act for receiving classified information orally, but the government dropped the charges against them in 2009 because of the likelihood classified information would be revealed at trial and because of a higher burden of proof requirement given the defendants' non-government status.
- In 2009, Ben-Ami Kadish, who had worked at the U.S. Army's Armament Research, Development, and Engineering Center in Dover, NJ, pled guilty to one count of conspiracy to act as an unregistered agent of Israel. He was indicted on suspicion of giving Israel classified documents concerning nuclear weapons, F-15 fighter jets, and the Patriot missile air-defense system to Israel between 1979 and 1985.

## **Nuclear Non-Proliferation**

A consensus among media and expert reports is that Israel possesses an arsenal of 100 to 200 nuclear weapons, although some suggest a higher figure.<sup>131</sup> Most reports appear to rely on suspicions voiced in a large volume of declassified U.S. government material in combination with the 1986 revelations of Mordechai Vanunu, a former technician at Israel's nuclear reactor complex, who provided data on and photographs of the nuclear reactor center at Dimona to the *Sunday Times* (London).<sup>132</sup> In 1988, Israel convicted Vanunu of espionage and treason for selling secrets to the *Times*, but did not admit that his disclosures were truthful. This follows the Israeli doctrine of nuclear or strategic ambiguity, according to which it neither admits nor denies that it

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<sup>131</sup> See footnote 25.

<sup>132</sup> Books relying on Vanunu's information include Yair Evron, *Israel's Nuclear Dilemma*, Ithaca: Cornell University Press, 1994, and Seymour Hersh, *Samson Option*, New York, Vintage Books, 1993. Other sources on the Israeli nuclear weapons include Avner Cohen, *Israel and the Bomb* (New York: Columbia University Press, 1998), and "Completing the Deterrence Triangle," *Carnegie Endowment for International Peace, Non-Proliferation Project*, v. 3, no. 18, June 29, 2000.

possesses nuclear weapons. Israel believes that this doctrine as well as its nuclear weapons add to its deterrence. The United States has agreed with this Israeli approach 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>133</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)<sup>134</sup> 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, and to refrain from taking any measures that preclude the achievement of this objective." It also called for all NPT states, including the nuclear-weapon states, "to extend their cooperation and to exert their utmost efforts with a view to ensuring the early establishment by regional parties of a Middle East zone free of nuclear and all other weapons of mass destruction and their delivery systems."

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>135</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>136</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>137</sup>

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<sup>133</sup> Eli Lake, "Secret U.S.-Israel Nuclear Accord in Jeopardy," *Washington Times*, May 6, 2009.

<sup>134</sup> Israel, India, and Pakistan are all generally believed to possess nuclear weapons, but none of them have signed the NPT.

<sup>135</sup> Available at [http://www.carnegieendowment.org/files/0331\\_transcript\\_npt1.pdf](http://www.carnegieendowment.org/files/0331_transcript_npt1.pdf).

<sup>136</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>137</sup> See, for example, Mr. 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 (continued...)

## 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 “Six-Day” War—and joined them to the west part of the city it had controlled since 1948. Israel proclaimed this entire area to be Israel’s eternal, undivided capital.<sup>138</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 Green Line and within the Israeli-drawn municipal borders.<sup>139</sup>

Successive U.S. Administrations, of both political parties, have insisted 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. Congress has repeatedly sought to prohibit official U.S. government business with the Palestinian Authority (PA) in Jerusalem, has prohibited the use of appropriated funds to create U.S. government offices in Israel to conduct business with the PA, and has sought to allow Israel to be recorded as the place of birth of U.S. citizens born in Jerusalem. The State Department does not recognize Jerusalem, Israel as a place of birth for passports. The case of *Zivotofsky v. Clinton*, argued in the Supreme Court in November 2011 and awaiting decision, could decide Congress’s authority on this question.<sup>140</sup>

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, 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 Islamic world, and could prejudice 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.” President Bush replied in his signing statement that the provision would, “if construed as mandatory ...

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(...continued)

4, 2009.

<sup>138</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.

<sup>139</sup> “Poll: Most Israelis Support East Jerusalem Construction,” *Ynetnews.com*, March 22, 2010.

<sup>140</sup> U.S. Supreme Court Docket No. 10-699, available at <http://www.supremecourt.gov/Search.aspx?FileName=/docketfiles/10-699.htm>. For a description of the case, see, e.g., Adam Liptak, “Question of Birth Becomes One of President’s Power,” *New York Times*, July 25, 2011.

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." 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.

## Settlements

Israel has at least 242 residential communities (known by most international actors as "settlements"), 124 settlement outposts unauthorized under Israeli law, and other civilian land-use sites in the West Bank, as well as 29 neighborhoods or settlements in East Jerusalem—all 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. Approximately 300,000 Israelis live in West Bank settlements, with roughly 200,000 more in East Jerusalem. Israelis who defend the settlements' legitimacy generally use a combination of legal, historical, strategic, nationalistic, or religious justifications.<sup>141</sup>

The international community generally considers Israeli construction on territory beyond the pre-1967 armistice lines to be illegal.<sup>142</sup> Israel retains military control over the West Bank and has largely completed a separation barrier<sup>143</sup> on West Bank territory that in some places corresponds with the pre-1967 armistice lines but in others goes significantly beyond them. 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

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<sup>141</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>142</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>143</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."

Secretary of State Cyrus Vance stating explicitly that settlements were “illegal” in 1980.<sup>144</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>145</sup> A common U.S. stance during the peace process has been that settlements are an “obstacle to peace.”

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.” PLO leaders followed suit and made a settlement freeze a precondition for their return to the peace talks.

Subsequently, 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.”<sup>146</sup> An April 2004 letter from President Bush to then Israeli Prime Minister Ariel Sharon had 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.

Prime Minister Netanyahu announced a 10-month partial moratorium on settlement construction in November 2009, but he specifically excluded Jerusalem from his edict and demanded leeway for “natural growth”<sup>147</sup> to accommodate increases in population. While the Obama Administration described Netanyahu’s action as an important “first step,” the move did not satisfy Palestinians’ demand for a total freeze and the impasse in efforts to resume substantive peace talks continued. The moratorium was not extended when it expired in September 2010, and new construction projects began to be announced shortly thereafter.

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

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<sup>144</sup> Daniel Kurtzer, “Do Settlements Matter? An American Perspective,” *Middle East Policy*, vol. 16, issue 3, Fall 2009.

<sup>145</sup> Nicholas Rostow, “Are the Settlements Illegal?,” *The American Interest*, March/April 2010.

<sup>146</sup> 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>147</sup> “Natural growth” is a vague term that, construed narrowly, could refer to building in settlements to accommodate the rate of expansion of settler families, and, construed broadly, could refer to building to accommodate anyone interested in moving to the settlements.

the Administration still opposed settlement construction as illegitimate and at cross-purposes with peace efforts.<sup>148</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

- (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>149</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.

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>150</sup> Yet, some Israelis voice concerns that the demand to provide security to settlers and their infrastructure and transportation links to Israel—a task made more difficult and manpower-intensive by some settlers' provocations of Palestinian West Bank residents and Israeli military authorities—could perpetuate Israeli military control in the West Bank even if other rationales for maintaining such control eventually recede or disappear. The government faces a choice involving tension between pro-settler political interests and the rule of law in early 2012 because it has been required by Israel's Supreme Court to dismantle the illegal Migron outpost by the end of March.

## **Bilateral Trade**

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.-Israeli free trade area. In 2011, Israel imported \$14.0 billion from the United States and exported \$23.0 billion in goods to the United States.<sup>151</sup>

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<sup>148</sup> "United States vetoes Security Council resolution on Israeli settlements," UN News Centre, February 18, 2011.

<sup>149</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."

<sup>150</sup> Joel Greenberg, "Netanyahu strengthens his base within Likud," *Washington Post*, February 2, 2011.

<sup>151</sup> Statistics compiled by Foreign Trade Division, U.S. Census Bureau, available at <http://www.census.gov/foreign-trade/balance/c5081.html>.

## Scientific and Business Cooperation

In the early 1970s, Israeli academics and businessmen began looking for ways to expand investment in Israel's high technology sector. At the time, Israel's nascent technology sector, which would later become the driving force in Israel's economy, was in need of private capital for research and development. The United States and Israel launched several programs to stimulate Israeli industrial and scientific research, and Congress has on several occasions authorized and appropriated funds for the following organizations:

- The BIRD Foundation (Israel-U.S. Binational Research & Development Foundation).<sup>152</sup> BIRD, which was established in 1977, provides matchmaking services between Israeli and American companies in research and development with the goal of expanding cooperation between U.S. and Israeli private high tech industries.
- The BSF Foundation (U.S.-Israel Binational Science Foundation).<sup>153</sup> BSF, which was started in 1972, promotes cooperation in scientific and technological research.
- The BARD Foundation (Binational Agriculture and Research and Development Fund). BARD was created in 1978 and supports U.S.-Israeli cooperation in agricultural research.<sup>154</sup>

Section 917 of P.L. 110-140, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act of 2007, contains the original language of the U.S.-Israel Energy Cooperation Act (H.R. 1838). Although it does not appropriate any funds for joint research and development, it does establish a grant program to support research, development, and commercialization of renewable energy or energy efficiency. The law also authorizes the Secretary of Energy to provide funds for the grant program as needed. Since FY2009, Congress has since appropriated approximately \$8 million for the program.

In November 2009, the U.S. Department of Energy and the Israeli Ministry of National Infrastructures announced that they would each contribute \$3.3 million to the BIRD Foundation to launch four clean energy projects. The projects include two solar power related technologies, a "smart grid" technology and a biodiesel project.

In January 2010, the Israeli government injected an additional \$55 million into the BIRD, BSF, and BARD foundations. According to Israeli Finance Minister Yuval Steinitz, "this is a significant and important step for strengthening economic and technological ties with the United States and

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<sup>152</sup> See <http://www.birdf.com/default.asp>. Congress helped establish BIRD's endowment with appropriations of \$30 million and \$15 million in 1977 and 1985, respectively. These grants were matched by the Israeli government for a total endowment of \$90 million.

<sup>153</sup> See <http://www.bsf.org.il/Gateway4/>. Congress helped establish BSF's endowment with appropriations of \$30 million and \$20 million in 1972 and 1984, respectively. These grants were matched by Israel for a total endowment of \$100 million. According to the treaty establishing the Foundation, the Foundation shall use the interest, as well as any funds derived from its activities, for the operations of the Foundation.

<sup>154</sup> See <http://www.bard-isus.com/>. Congress helped establish BARD's endowment with appropriations of \$40 million and \$15 million in 1979 and 1985 respectively. These grants were matched by the state of Israel for a total endowment of \$110 million. In recent years, Congress has provided funds for BARD in annual Agriculture Appropriations legislation at approximately \$500,000 a year.



for capital inflows to Israeli innovation. . . . We hope that in the wake of this step, we will find more opportunities for achieving these targets.”

## **Intellectual Property Protection**

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. In subsequent years, the USTR retained Israel on the Priority Watch List. In April 2009, the USTR did it again, noting some progress, but also concerns about Israel’s inadequate protection against unfair commercial use of undisclosed test and other data generated to obtain marketing approval for pharmaceutical products, and measures that affect the length of patent term extensions granted to compensate for delays in obtaining regulatory approval of a pharmaceutical product. The USTR says that these policies result in an “unfair disadvantage to innovative pharmaceutical companies who receive comparatively weak protection” under current Israeli laws.<sup>155</sup>

## **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>

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<sup>155</sup> Office of the U.S. Trade Representative, *2009 Special 301 Report*, available at <http://www.ustr.gov>.

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>

## **Author Contact Information**

Jim Zanotti  
Specialist in Middle Eastern Affairs  
[jzanotti@crs.loc.gov](mailto:jzanotti@crs.loc.gov), 7-1441

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