



Israel: Background and U.S. Relations

Jim Zanotti

Specialist in Middle Eastern Affairs

June 12, 2013

Congressional Research Service

7-5700

www.crs.gov

RL33476

CRS Report for Congress

Prepared for Members and Committees of Congress

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 developed close relations based on common perceptions of shared democratic values and religious affinities. U.S. policymakers often seek to determine how regional events and U.S. policy choices may affect Israel's security, and Congress provides active oversight of executive branch dealings with Israel and the broader Middle East. Some Members of Congress and some analysts criticize what they perceive as U.S. support for Israel without sufficient scrutiny of its actions. Israel is a 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 has many regional security concerns. Israeli leaders calling for urgent international action against Iran's nuclear program hint at the possibility of a unilateral military strike against Iran's nuclear facilities. In addition to concerns over Iran, 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. Israel has shown particular concern about threats from Hezbollah and other non-state groups in ungoverned or minimally governed areas in Syria, Lebanon, and Egypt's Sinai Peninsula, as well as from Hamas and other Palestinian militants in the Gaza Strip.

Israel's political impasse with the Palestinians on core issues in their longstanding conflict shows little or no sign of abating. Since the end of the 1967 Arab-Israeli War, Israel has militarily occupied and administered the West Bank, with the Palestinian Authority exercising limited self-rule in some areas since 1995. Israeli settlement of that area, facilitated by successive Israeli governments, has resulted in a population of approximately 500,000 Israelis living in residential neighborhoods or settlements in the West Bank (including East Jerusalem). These settlements are of disputed legality under international law. Israel considers all of Jerusalem to be the "eternal, undivided capital of Israel," but Palestinians claim a capital in East Jerusalem and some international actors' advocate special political classification for the city or specific Muslim and Christian holy sites. Although Israel withdrew its permanent military presence and its settlers from the Gaza Strip in 2005, it still controls most access points and legal commerce to and from the territory.

Despite its unstable regional environment, Israel has developed a robust diversified economy and a vibrant democracy. Recent discoveries and exploitation of offshore natural gas raise the prospect of a more energy-independent future, while economic debates focus largely on cost-of-living and income and labor distribution issues. Israel's demographic profile has evolved in a way that appears to be affecting its political orientation. Along with secular and nationalist Jews from various ethnic backgrounds, Jewish ultra-Orthodox, Russian-speaking, and Arab citizens significantly influence societal debates. The government formed by Prime Minister Binyamin Netanyahu in March 2013 features a set of coalition partners that is different from the previous government, largely due to electoral gains on socioeconomic issues by new national leaders and possible future prime ministerial candidates Yair Lapid and Naftali Bennett.

Contents

Introduction.....	1
Country Background.....	2
Historical Overview.....	2
Demographic and Political Changes.....	3
Government and Politics	5
Overview	5
2013 Elections and Current Government	7
Economy.....	9
Israel’s Security Concerns	11
General Threat Perceptions	11
Challenges from Iran and Arab Neighbors	12
Iran	13
Syria	14
Egypt.....	14
Rocket Threat from Lebanon and Gaza.....	14
The Palestinian Issue	15
Concerns Regarding International Isolation	16
Key U.S. Policy Issues.....	17
Overview	17
Security Cooperation.....	18
Background	18
Pending Legislation – U.S.-Israel Strategic Partnership Act of 2013	19
Preserving Israel’s Qualitative Military Edge (QME).....	19
U.S. Security Guarantees?.....	20
U.S. Aid and Arms Sales to Israel	21
Israeli-Palestinian Issues	24
Status of Regional and International Diplomacy.....	24
Jerusalem.....	28
Settlements.....	29
Sensitive Defense Technology and Intelligence Issues	32
Israeli Arms Sales to Other Countries	32
End-Use Monitoring.....	33
Espionage-Related Cases	34
Israel’s Nuclear Status and Non-Proliferation	34
Bilateral Trade Issues	34
Pending Visa Waiver Legislation.....	35

Figures

Figure 1. Map of Israel	4
Figure 2. Israeli Knesset	8

Tables

Table 1. Israeli Security Cabinet Members.....	7
Table 2. Basic Facts	10
Table 3. U.S. Bilateral Aid to Israel.....	23
Table 4. Defense Budget Appropriations for U.S.-Israeli Missile Defense: FY2006- FY2014 Request	24

Appendixes

Appendix A. U.S.-Based Interest Groups Relating to Israel.....	37
Appendix B. Electoral Lists Represented in Knesset	38

Contacts

Author Contact Information.....	39
---------------------------------	----

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 security challenges. Congress provides active oversight of the executive branch's dealings with Israel. Some Members of Congress oppose what they perceive as U.S. support of Israel without sufficient scrutiny of Israel's actions. Other Members of Congress have criticized actions by the Obama Administration and previous U.S. Administrations for being insufficiently supportive of Israel, and occasionally have authorized and appropriated funding for programs benefitting Israel at a level exceeding that requested by the executive branch.

U.S. approaches to a number of challenges in the Middle East have implications for Israel. For several years now, Israeli leaders have described Iran and its reported pursuit of a nuclear weapons capability as an imminent threat to Israeli security. Israeli officials have claimed that their window of opportunity to act on their own to delay, halt, or reverse Iranian progress toward a nuclear weapons capability is closing. Consequently, they have sought increasingly punitive international measures against Iran's nuclear program. Within this context, Israeli leaders have publicly hinted that absent a clear resolution of Iran's nuclear activity to their satisfaction, they may order the Israeli military to strike Iranian nuclear facilities.

Many Israeli officials also are concerned with the rise of Islamist political movements and threats posed by violent jihadist terrorist groups emanating from ongoing regional political turmoil. Israel has few means of influencing political outcomes in Egypt, Syria, Lebanon, or Jordan, but developments in those states may significantly affect Israeli security. Syria's civil war is posing increasing risk to Israel, leading to limited Israeli military action and raising the possibility of more overt conflict involving the Assad regime and/or Hezbollah—which is directly intervening in support of the regime. Instability in Egypt's Sinai Peninsula has already been used by militant groups—probably including Al Qaeda-style Palestinian cells—for attacks on Israeli targets. At the same time, many large and small Israeli population centers remain threatened by rocket fire from Hamas and other terrorist groups in Gaza.

In this context of political change in the Arab world and stalemate in the Israeli-Palestinian peace process, the Palestine Liberation Organization (PLO) has pursued greater international recognition of Palestinian statehood. These efforts and Israel's reaction to them have reinforced and perhaps deepened the impasse on core issues of Israeli-Palestinian conflict—security parameters, borders, Jewish settlements, water rights, Palestinian refugees, and the status of Jerusalem.

Country Background

Historical Overview¹

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

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

After several months of civil conflict between Jews and Arabs, Britain officially ended its Mandate on May 14, 1948, at which point the state of Israel proclaimed its independence and was immediately invaded by Arab armies. During and after the conflict, roughly 700,000 Palestinians were driven or fled from their homes, an occurrence Palestinians call the *nakba* ("catastrophe").² Many became internationally designated refugees after ending up either in areas of Mandate-era Palestine controlled by Jordan (the West Bank) or Egypt (the Gaza Strip), or in nearby Arab states. Palestinians remaining in Israel became Israeli citizens.

The conflict ended with armistice agreements between Israel and its neighboring Arab states: Egypt, Jordan, Lebanon, and Syria. The territory controlled by Israel within these 1949-1950 armistice lines is roughly the size of New Jersey. Israel engaged in further armed conflict with some or all of its neighbors in 1956, 1967, 1973, and 1982. Since the late 1960s, Israel has also dealt with the threat of Palestinian nationalist and (later) Islamist terrorism. In 1979, Israel

¹ For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York: Knopf, 1996.

² CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti.

concluded a peace treaty with Egypt, followed in 1994 by a peace treaty with Jordan, thus making another multi-front war less likely. However, as discussed throughout the report, major security challenges persist from Iran and groups allied with it. Additionally, developments in Arab states and in the ongoing Israeli-Palestinian conflict further complicate Israel's regional position.

Demographic and Political Changes

Israel's demographic profile has evolved in a way that appears to be affecting its political orientation and societal debates. In the first decades following its founding, Israeli society was dominated by secular Ashkenazi Jews from Eastern Europe who constituted the large majority of 19th and early 20th century Zionist immigrants. Many leaders from these immigrant communities sought to build a country dedicated to Western liberal and communitarian values. The 1977 electoral victory of Menachem Begin's Likud Party helped boost the influence of previously marginalized groups, particularly Mizrahi (Eastern) Jews who had largely immigrated to Israel from Arab countries and Iran. Subsequently other distinct groups, such as Haredim (ultra-Orthodox) from communities that predated Zionist immigration, and Russian-speaking Israelis who emigrated from the former Soviet Union in the 1990s,³ have increased their numbers—and consequently their influence—in Israeli society. Israel also faces considerable estrangement between its Jewish and Arab citizens. Arabs comprise more than 20% of the population, and Islamist movements are increasingly popular in some Arab Israeli communities.

Political parties linked to recently expanded segments of Jewish Israeli society tend to favor the right side of the Israeli political spectrum currently led by Binyamin Netanyahu and Likud. At the same time, general trends show that support for traditionally left-leaning Zionist parties such as Labor has decreased. Issues regarding religiosity in the public sphere and secular consternation at subsidies and exemptions from military service for Haredim (many of whom engage in religious study as an alternative to employment) have driven recent political debate, including during the January 2013 electoral campaign. Military service remains compulsory for most Jewish Israeli young men and women.

Many analysts believe that these changes 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."⁴ These trends' likely long-term effects on Israel's internal cohesion and its ties with the United States and other international actors are unclear.

³ Most of these Russian-speaking emigrants are Ashkenazi and tend to be secular, but are generally more sympathetic with right-leaning parties than with the old Ashkenazi elite.

⁴ Haim Malka, *Crossroads: The Future of the U.S.-Israel Strategic Partnership*, Washington, DC: Center for Strategic and International Studies, 2011, p. 19.

Figure I. Map of Israel



Source: CIA, *The World Factbook*.

Government and Politics

Overview

Israel is a parliamentary democracy in which the prime minister is head of government and the president is a largely ceremonial head of state. The unicameral parliament (the Knesset) elects a president for a seven-year term. Israel does not have a written constitution. Instead, 11 Basic Laws lay down the rules of government and enumerate fundamental rights. Israel has an independent judiciary, with a system of magistrates' courts and district courts headed by a Supreme Court.

The political spectrum is highly fragmented, with small parties exercising disproportionate power due to the low vote threshold (2%) for entry into the Knesset, and larger parties seeking small party support to form and maintain coalition governments. Since Israel's founding, the average lifespan of an Israeli government has been about 23 months. In recent years, however, the Knesset has somewhat tightened the conditions for bringing down a government.

Primer on Israeli Electoral Process and Government-Building⁵

Elections to Israel's 120-seat Knesset are direct, secret, and proportional based on a party list system, with the entire country constituting a single electoral district. All Israeli citizens age 18 and older may vote. Turnout in elections since 2001 has ranged between 62-67% of registered voters (before that it generally ranged between 77-80%)⁶. Elections must be held at least every four years, but are often held earlier due to difficulties in holding coalitions together. A Central Elections Committee is responsible for conducting and supervising the elections. The committee includes representatives from parties in the current Knesset and is headed by a Supreme Court justice.

National laws provide parameters for candidate eligibility, general elections, and party primaries—including specific conditions and limitations on campaign contributions and public financing for parties.⁷ Since 2007, a “cooling-off law” requires that senior Israeli military officers wait at least three years before entering civilian politics.⁸

Following elections, the task of forming a government is given by Israel's president to the Knesset member he/she believes has the best chance to form a government as prime minister. The would-be prime minister has 28 days to assemble a majority coalition, and the president can extend this period for an additional 14 days. The government and its ministers are installed following a vote of confidence by at least 61 Knesset members. Thereafter, the ministers determine the government's course of action on domestic issues, while military and national security action are directed through a “security cabinet” (formally known as the Ministerial Committee on Defense) consisting of a group of key ministers—some whose membership is set by law, others who are appointed by the prime minister—who number no more than half of all cabinet ministers.⁹

For the first 30 years of Israel's existence (1948-1977), the social democratic Mapai/Labor movement—led by a founding Ashkenazi Zionist elite of Eastern European descent—dominated Israeli governing coalitions. As questions regarding the future of territories that Israel's military occupied during the 1967 Arab-Israeli war became increasingly central to political life, the nationalist Likud party and its prominent prime ministers Menachem Begin and Yitzhak Shamir helped drive the political agenda over the following 15 years. Although Labor under Yitzhak Rabin later initiated the Oslo peace process with the Palestinians, its political momentum was slowed and reversed after Rabin's assassination in 1995. Despite Labor's setbacks, its warnings regarding the demographic challenge that high Arab birth rates could eventually present to continued Israeli political control

⁵ Much of the information for this textbox comes from Israel's Ministry of Foreign Affairs website, “Elections in Israel - February 2009,” February 10, 2009.

⁶ International Institute for Democracy and Electoral Assistance, “Voter turnout data for Israel,” October 5, 2011; Alistair Lyon, “Netanyahu claims election win despite losses,” *Reuters*, January 22, 2013.

⁷ For additional details on Israel's campaign finance laws, see Ruth Levush, “Campaign Finance: Israel,” Law Library of Congress, July 25, 2012.

⁸ The law, sponsored by Likud's Yuval Steinitz, was reportedly intended to counter Israeli military officers' cultivation of civilian political connections and influence in anticipation of their possible career transitions. Some reports criticized the law's failure to address the use of influence by civilian politicians to prepare for private sector career transitions. Nehemia Shtrasler, “The Bottom Line / Lawmakers don't need to cool off too?” *Ha'aretz*, May 16, 2007. This law may have prevented Lieutenant General (ret.) Gabi Ashkenazi, who retired as Israel Defense Forces Chief of Staff in February 2011, from possibly challenging Netanyahu from the center-left. Attempts in 2010 and 2011 spearheaded by then Kadima (now Ha'tnua) legislator Yoel Hasson to shorten the cooling-off period to 18 months were unsuccessful, partly because of their reported focus on providing a political opening for Ashkenazi.

⁹ According to a one media report, “Under Israeli law, war must be approved by the full cabinet. But the security cabinet, whose secrecy is better enforced, can green-light more limited military ‘missions’. Making that distinction depends on whether Israel's intelligence chiefs anticipate an escalation into protracted conflict.” Dan Williams, “Netanyahu's new security cabinet may hesitate on any Iran war,” *Reuters*, March 19, 2013. Historically, Israeli prime ministers (including Netanyahu) have appeared to prefer convening the smaller forum for consultative purposes when convening the larger one is not legally required. See, e.g., Eli Lake, “Meet the Israeli ‘Octet’ That Would Decide an Iran Attack,” *Daily Beast*, March 9, 2012. For a primer on and historical overview of Israel's national security decisionmaking process by a former Israeli security official, see Charles D. Freilich, *Zion's Dilemmas: How Israel Makes National Security Policy*, Ithaca, New York: Cornell University, 2012. For a more concise version of the same subject matter, see Charles D. Freilich, “National Security Decision-Making in Israel: Improving the Process,” *Middle East Journal*, vol. 67, no. 2, spring 2013.

over Palestinians, under the rubric of maintaining both a Jewish and a democratic state, gained traction among many Israelis. In this context, Prime Minister Ariel Sharon, a longtime champion of the Israeli right and settlement movement, split from Likud and established Kadima as a more centrist alternative in 2005. Elections in February 2009 were a divided affair, with Tzipi Livni's Kadima winning the most Knesset seats but Netanyahu's Likud leading the coalition because of an overall advantage for right-of-center parties. For more recent developments, see "2013 Elections and Current Government" below.

Table I. Israeli Security Cabinet Members

Member	Party	Ministerial Position(s)	Previous Knesset Terms
Binyamin Netanyahu	Likud	Prime Minister Minister of Foreign Affairs Minister of Public Diplomacy and Diaspora Affairs	7
Moshe Ya'alon	Likud	Minister of Defense	1
Yair Lapid	Yesh Atid	Minister of Finance	0
Naftali Bennett	Ha'bayit Ha'Yehudi	Minister of Economy and Trade Minister of Religious Affairs	0
Tzipi Livni	Ha'tnua	Minister of Justice	4
Yitzhak Aharonovich	Yisrael Beiteinu	Minister of Public Security	2
Gilad Erdan	Likud	Minister of Communications Minister of Home Front Defense	3

Note: Avigdor Lieberman of Yisrael Beiteinu (four previous Knesset terms) is expected to join the security cabinet if he returns as foreign minister following his criminal trial. Ben Caspit, "The Trial of Avigdor Liberman," *Al-Monitor Israel Pulse*, May 31, 2013.

2013 Elections and Current Government

A new Israeli coalition government was sworn in on March 18, 2013, following elections that took place on January 22, 2013. The right-of-center¹⁰ "Likud Beiteinu" list,¹¹ featuring Prime Minister Binyamin Netanyahu's Likud party and Yisrael Beiteinu (Israel Is Our Home), has the most seats (31) in the 120-seat Knesset (parliament), but 11 fewer than its constituent parties had in the previous Knesset. After a surprisingly strong showing in January's elections, the newly formed, centrist Yesh Atid (There Is a Future), led by former journalist Yair Lapid,¹² has the second-largest Knesset representation (19 seats). Lapid and Naftali Bennett¹³ of the pro-settler

¹⁰ In Israel, the left-right spectrum has been traditionally defined by parties' positions on the Israeli-Palestinian conflict/peace process, though the spectrum also has some validity in describing differences on economic and social issues.

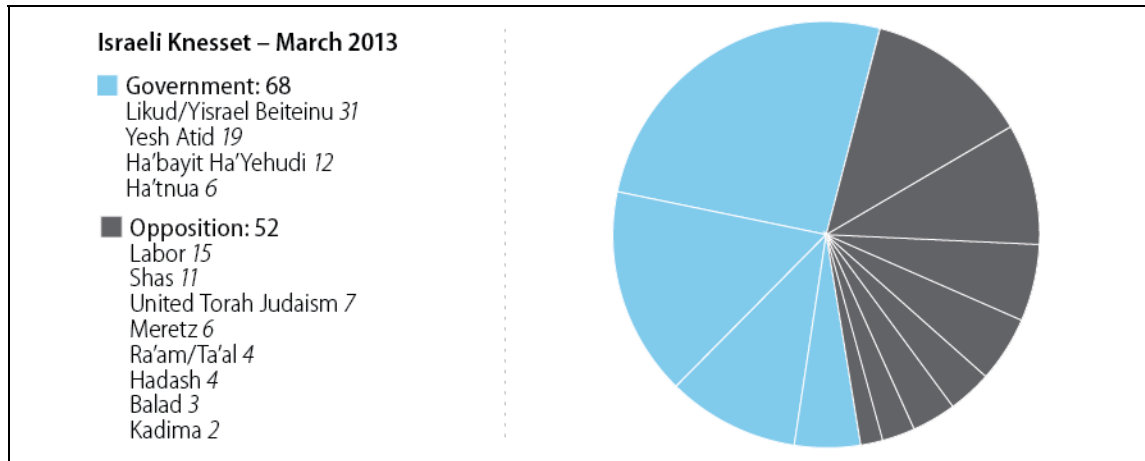
¹¹ Under Israeli electoral law, lists for Knesset elections may consist of one party or multiple parties running jointly.

¹² For a profile of Lapid, see Raffi Berg, "Profile: Yair Lapid, Israel's Yesh Atid party leader," *BBC News*, March 14, 2013.

¹³ Bennett, who is routinely described as a young, charismatic leader helping remake his party, is also a multimillionaire former businessman and was a former chief of staff to Netanyahu during his time as opposition leader (continued...)

party Ha'bayit Ha'Yehudi agreed to join the government with Likud Beiteinu and the centrist Ha'tnua party after reportedly agreeing on basic parameters with Netanyahu over plans to remove the general exemption from mandatory conscription for young ultra-Orthodox men. Netanyahu also reportedly agreed in principle to raise the electoral threshold for political parties seeking to enter the Knesset from 2% to 4%. Shelly Yachimovich formally leads the opposition as head of its largest party, Labor. Other elements of the opposition include the ultra-Orthodox parties Shas and United Torah Judaism. For a breakdown of the electoral lists with Knesset seats, see **Appendix B**.

Figure 2. Israeli Knesset



There has been much speculation over the implications of the January elections' outcome for the future of Israel's political leadership. It is possible that the coalition could collapse over disagreements on Palestinian or socioeconomic issues and trigger another round of elections well before they would be required in late 2017.¹⁴ It is unclear whether Yair Lapid's rise poses a long-term challenge to Netanyahu or represents the latest in an historical string of Israeli centrist parties whose appeal is initially strong on the basis of novelty and the leader's personality, but fades before the next election.¹⁵ A mid-May 2013 public opinion poll revealed negative approval ratings for Netanyahu, but even more negative ratings for Lapid, who as finance minister became a leading face of unpopular austerity measures (referenced below) for Israel's 2013-2014 budget.¹⁶

Some observers cite discontent within Likud given its diminished Knesset and cabinet representation. One commentator had the following view on intraparty tensions during the coalition-building process: "Netanyahu was distinctly unhappy with the hardline roster Likud party members chose for their Knesset slate in late November. Much of the party membership, and no small number of leading Likud politicians, are distinctly unhappy with everything that has

(...continued)

in 2006-2008 before the two reportedly had a falling out of sorts. Bennett favors Israeli annexation of a large part of the West Bank. Jodi Rudoren, "Dynamic Former Netanyahu Aide Shifts Israeli Campaign Rightward," *New York Times*, December 26, 2012.

¹⁴ See, e.g., Jeffrey Heller, "Israel coalition wobbles over proposed military service law," *Reuters*, May 27, 2013.

¹⁵ Robert M. Danin, "Israel's Election and the Perils of Third Parties," *cfi.org*, January 23, 2013.

¹⁶ Yossi Verter, "Haaretz poll: Lapid pays price for austerity measures as his popularity plunges," *haaretz.com*, May 16, 2013.

unfolded since.”¹⁷ It is unclear whether such discontent, to the extent it exists, could eventually endanger Netanyahu’s leadership from his right.

According to many observers, the January 2013 elections largely hinged on domestic socioeconomic issues. Although the new government agreed in May 2013 on a 2013-2014 budget that will incorporate spending cuts and tax increases in order to control Israel’s fiscal deficit, cost-of-living and income distribution issues have generated contention. Despite consistent economic growth and Israel’s stable fiscal position, these issues drove large, non-violent domestic protests in the summer of 2011.¹⁸ Other matters that garner significant domestic attention include the influence of ultra-Orthodox Jewish communities on gender roles in the public sphere, as well as tensions between avowed Jewish nationalist elements of society and Palestinians (including Arab Israelis), non-Jewish religious groups, and some other Jewish Israelis.¹⁹ U.S. officials have expressed concern over these dynamics.²⁰

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’s economy appears to be experiencing a moderate slowdown after years of sustained, robust growth (nearly 5% from 2010 to 2011, for example). The slowdown seems to be largely due to second-order effects from down economies in Israel’s largest export markets in Europe and North America. According to the Economist Intelligence Unit, Israel’s growth in real GDP, estimated at 3.2% for 2012, is forecast to remain between 2-3% in 2013 and 2014.²¹ In subsequent years, however, the central bank’s relatively expansionary monetary policy, an expected rebound in the global economy, and anticipated new income from recently discovered offshore natural gas deposits (as discussed below) are expected to return economic growth to 4-5%.²²

When Prime Minister Netanyahu was finance minister in the early 2000s, the government attempted to liberalize the economy by controlling government spending, reducing taxes, and privatizing state enterprises. The chronic budget deficit decreased, while the country’s international credit rating was raised, enabling a drop in interest rates. However, Netanyahu’s critics suggest that cuts in social spending widened income inequality and shrank the Israeli

¹⁷ David Horovitz, “Netanyahu and his partner-rivals,” *Times of Israel*, March 14, 2013.

¹⁸ Various factors—including Israel’s communitarian heritage, its tradition of vigorous public debate, and the consequences of deregulation for a system characterized by some as “crony capitalism”—may have contributed to the protests.

¹⁹ Such tensions include “price tag” attacks and vandalism in retaliation for government action or anticipated action limiting settlements or countering outposts unsanctioned by Israeli law. Yossi Melman, “A price tag for Jewish terror,” *Jerusalem Report*, May 6, 2013.

²⁰ Barak Ravid, “Clinton warns of Israel’s eroding democratic values,” *Ha’aretz*, December 5, 2011.

²¹ Economist Intelligence Unit, *Country Report: Israel*, generated May 29, 2013.

²² *Ibid.*

middle class.²³ A May 2013 Organisation for Economic Co-operation and Development (OECD) report stated that Israel has the highest poverty rate of any OECD country (slightly more than 20%) and the fifth-highest level of income inequality.²⁴

Table 2. Basic Facts

Population	7.70 million (2013 est.) (includes an estimated 325,500 settlers in the West Bank (2011 est.), 186,929 in East Jerusalem (2010 est.), and 18,700 in the Golan Heights (2011 est.))
Jews	75.4%
Arabs	20.5% (84.1% Muslim, 8.1% Druze, 7.8% Christian) (2011 est.)
Real Gross Domestic Product growth rate	2.3% (2013 proj.)
GDP per capita (at purchasing power parity)	\$32,200 (2012 est.)
Unemployment rate	6.3% (2012 est.)
Population below poverty line	23.6% (2007 est.)
Inflation rate	2.0% (2013 proj.)
Defense spending as % of GDP	5.3% (2013 proj.)
Budget deficit as % of GDP	4.1% (2013 proj.)
Public Debt as % of GDP	74.4% (2012 est.)
Foreign exchange and gold reserves	\$75.2 billion (2012 est.)
Current account (Trade) surplus as % of GDP	1.7% (2013 proj.)
Exports	\$64.74 billion (2012 est.)
Export commodities	machinery and equipment, software, cut diamonds, agricultural products, chemicals, textile and apparel
Export partners	U.S. 28.8%, Hong Kong 7.9%, Belgium 5.6%, United Kingdom 5%, India 4.5%, China 4% (2011 est.)
Imports	\$77.59 billion (2012 est.)
Import commodities	raw materials, military equipment, investment goods, rough diamonds, fuels, grain, consumer goods
Import partners	U.S. 11.8%, China 7.4%, Germany 6.2%, Belgium 6.1%, Switzerland 5.4%, Italy 4.2% (2011 est.)

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

²³ "How Netanyahu Went from Idealism to Pragmatism on Economic Policy" Knowledge@Wharton Blog, October 10, 2012.

²⁴ OECD, "Crisis squeezes income and puts pressure on inequality and poverty," May 15, 2013.

Reported offshore natural gas finds in recent years could have substantial implications for Israel's energy security. In December 2010, Noble Energy, a U.S.-based energy company, reconfirmed its estimates for its third, and largest, natural gas discovery off the northern coast of Israel, the Leviathan field, which has an estimated gross resource base of 16 trillion cubic feet (tcf) of natural gas. Noble Energy estimates that its three natural gas discoveries since 2009—Tamar, Dalit, and Leviathan—have 25 tcf of gross resources. Combined production from these offshore fields 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.²⁵ Gas from Tamar began being piped to Israel in March 2013, and production from Dalit and Leviathan is expected by 2018. 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%. Questions remain regarding how Israel might feasibly export gas via pipelines or liquefied natural gas (LNG) production and shipping given both potential economic costs and political and security risks.

Israel's Security Concerns

General Threat Perceptions

A leading Israeli commentator has written, "The region is in the throes of major historic change. For Israel, there are real dangers and significant opportunities."²⁶ Many Israeli leaders assert that they are currently facing an unprecedented confluence of largely asymmetric regional security challenges from Iran, non-state militant groups, and surrounding Arab countries.²⁷ Israel's regional conventional military superiority persists and may even continue to grow, but an Israeli commentator wrote last summer that recent events "have potentially made Israel's increasing conventional superiority less relevant to Israeli security, leaving Israel vulnerable to an array of security challenges."²⁸

However, Israelis and other observers debate the extent of Israel's vulnerability.²⁹ Some former Israeli officials have asserted that internal challenges faced by Israel's neighbors appear to have strengthened Israel's regional position.³⁰ For example, it is possible to argue that ongoing conflict in Syria is requiring Iran and Hezbollah to commit significant resources and manpower to maintaining a strategic foothold there, and thus reduces the active threat they pose to Israel. Moreover, some unconventional security threats have been reduced because of factors such as

²⁵ 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.

²⁶ Leslie Susser, "Strategic dilemmas," *Jerusalem Report*, May 20, 2013.

²⁷ Yaakov Lapin, "Ya'alon: Israel may have to face Iran threat alone," *jpost.com*, April 16, 2013.

²⁸ See, e.g., Efraim Inbar, "Israel's National Security Amidst Unrest in the Arab World," *Washington Quarterly*, vol. 35, no. 3, summer 2012.

²⁹ One former U.S. official has written, "The Israelis have major demographic, security and political problems. It's even possible, without worst casing matters, to worry about the future survival of Israel as a Jewish democratic state. But states just don't disappear and collapse. The risk in worst-casing the Israel story is that we infantilize the country—assume that it's a transient entity headed for a disaster and that there are no options to divert the terrible end." Aaron David Miller, "Debunking Myths on Israel and U.S. Foreign Policy," Israel Policy Forum (publicized September 2012).

³⁰ See, e.g., former Israeli prime minister Ehud Olmert and former Mossad director Meir Dagan, cited in Ethan Bronner, "Israel Says It's Not Seeking U.S. Intervention in Syria, Despite Chemical Arms," *New York Times*, April 29, 2013.

heightened security measures vis-à-vis Palestinians; missile defense systems; and reported cyberwarfare capabilities. Debate continues over the urgency of a political resolution to Israel's disputes with the Palestinians, as well as the potential regional and international consequences—including possibly increased “isolation”—if no resolution occurs. Analysts also have varying views regarding the extent to which Israel maintains deterrence over non-state militant groups such as Hamas and Hezbollah.

Challenges from Iran and Arab Neighbors

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

- Overwhelming conventional military superiority;
- Formally ambiguous but universally presumed regional nuclear weapons exclusivity;³¹ and
- De jure or de facto arrangements or relations with the authoritarian leaders of its Arab state neighbors aimed at preventing interstate conflict.

Although Israel's conventional military advantages are clear, the following three strategic challenges have gained in urgency, could threaten the other two advantages listed above, and are therefore subjects of serious concern among Israelis:

- ***Iranian Nuclear Challenge.***³² Iran's possible achievement of a nuclear weapons capability, either for direct use or to exercise indirect but decisive influence on the region, could worsen security dilemmas. Israeli leaders have asserted that even if Iran does not use, intend to use, or even manufacture a nuclear weapon, its mere capacity to do so will increase its deterrence by raising the potential costs Israel and others would incur by acting against it or its allies (i.e., Hezbollah and various Palestinian militant groups). The resulting intimidation could lead Arab Gulf states in proximity to Iran to adopt more quiescent or pro-Iranian policies or to pursue nuclear capabilities of their own. In turn, this could open the way for increased Iranian influence and/or nuclear proliferation throughout the region. Prime Minister Netanyahu reportedly fears that such intimidation could lead to a “mass exodus of Jews from an Israel under nuclear threat, weakening the state and compromising the Zionist dream.”³³
- ***Islamist-Led or -Influenced Arab States.*** Sunni Islamist-led or -influenced Arab states may actively or tacitly support increased political pressure against Israel, particularly on the Palestinian issue, and/or increased military mobilization at or near its borders. Anti-Israel sentiments are widespread in other Middle Eastern

³¹ Israel is not a party to the Nuclear Non-Proliferation Treaty (NPT) and maintains a policy of “nuclear opacity” or *amimut*. A consensus among media and analysts' reports is that Israel possesses an arsenal of 80 to 200 nuclear weapons. See, e.g., Timothy McDonnell, “Nuclear pursuits: Non-P-5 nuclear-armed states, 2013,” *Bulletin of the Atomic Scientists*, vol. 69(1), 2013.

³² For more information, see CRS Report R42443, *Israel: Possible Military Strike Against Iran's Nuclear Facilities*, coordinated by Jim Zanotti.

³³ Leslie Susser, “Spy vs. Spy,” *Jerusalem Report*, March 26, 2012.

states. These sentiments are not exclusive to Islamists, but country-specific and region-wide Islamist narratives, political constructs, and media platforms offer possible channels for coordinating their impact. This trend is reflected in a number of ongoing political and constitutional debates in Arab countries where political change has empowered Islamist parties and movements.

- ***Instability and Terrorism from Ungoverned Spaces.*** Ungoverned or minimally governed spaces are proliferating near Israel's borders in Syria, Lebanon, Egypt's Sinai Peninsula, and Libya. These areas attract or could attract terrorists, weapons traffickers, criminal networks, refugees, and migrants, and contribute to trends that appear to threaten Israeli security.³⁴ Israel is reportedly giving increased priority to constructing specially outfitted security fences along its borders with Syria, Egypt, Lebanon, and even Jordan.³⁵

Israeli planners and decision makers have scrambled to determine how to properly address these potential threats by recalibrating resource allocations, military postures, and regional and international political activities.

Iran

The security discourse in Israel has been dominated in recent years by the question of how to deal politically and operationally with the Iranian nuclear program. Reports abound of an ongoing “shadow war” involving the United States and Israel against Iran. In this apparent conflict, alleged U.S.-Israel cyberattacks and Israel-sponsored assassinations of Iranian nuclear program principals are countered by alleged terrorist plots by Iran or its Lebanese non-state ally Hezbollah against Israeli targets worldwide—including Bulgaria,³⁶ Cyprus, Georgia, Thailand, and India.

The following variables could influence Israeli leaders' decision on whether to seriously consider unilateral action against the Iranian nuclear program: the degree of success international negotiations and sanctions have in coming months in changing Iran's behavior; the effectiveness of possible covert measures at delaying or reversing Iranian nuclear progress; political dynamics within the Israeli government; and the level of assurance that President Obama may or may not provide about U.S. willingness to prevent Iran's acquisition of nuclear weapons or perhaps a “breakout capacity” below the threshold of actual construction of one or more nuclear weapons.³⁷

On May 22, 2013, the Senate voted 99-0 to pass S.Res. 65. As passed, the resolution included the following language, along with a clause explicitly stating that it would not be construed as authorization for the use of force or as a declaration of war:

if the Government of Israel is compelled to take military action in legitimate self-defense against Iran's nuclear weapons program, the United States Government should stand with

³⁴ Susser, “Strategic dilemmas,” *op. cit.*

³⁵ “Israel and the walls that surround it,” *aljazeera.com*, May 2, 2012.

³⁶ Several reports identify Hezbollah as the perpetrator of the July 2012 suicide bus bombing in Burgas, Bulgaria that targeted an Israeli tourist group—killing six (including the Bulgarian driver) and injuring 32. Nicholas Kulish and Eric Schmitt, “Hezbollah Is Blamed for Attack on Israeli Tourists in Bulgaria,” *New York Times*, July 19, 2012.

³⁷ Such breakout capacity, though not necessarily entailing an actor's possession of one or more nuclear weapons, entails an actor's ability to combine fissile material with a nuclear warhead and an appropriate delivery vehicle. CRS Report R42443, *Israel: Possible Military Strike Against Iran's Nuclear Facilities*, coordinated by Jim Zanotti.

Israel and provide, in accordance with United States law and the constitutional responsibility of Congress to authorize the use of military force, diplomatic, military, and economic support to the Government of Israel in its defense of its territory, people, and existence.³⁸

Syria

The Syrian civil war—in which the initial conflict between the Asad regime and its aggrieved citizens has been intertwined with a growing sectarian and proxy battle involving regional and global powers—has increasingly become a security challenge for Israel. Israel became militarily involved in early 2013 to a limited extent. This involvement began with some retaliatory strikes against instances of artillery fire on its positions in the Golan Heights. Subsequently, Israel has reportedly begun flying reconnaissance missions over Syrian territory. Additionally, in February and May 2013, Israel allegedly conducted three separate airstrikes to prevent the control and use of sophisticated missiles or anti-aircraft weapons by Hezbollah. Most commentators conclude that Israel would prefer to avoid greater involvement in Syria, partly because, in the words of one, Israel is “hard-pressed to figure out what possible outcome is in [its] best interests.”³⁹ It is unclear whether Israel can indefinitely avoid a larger role, in view of various factors, including Hezbollah’s involvement in the conflict; possible Russian delivery of sophisticated S-300 anti-aircraft systems to Syria, and continuing threats to the Golan Heights border area and the U.N. Disengagement Observer Force (UNDOF) that monitors it.⁴⁰

Egypt

Regarding Egypt, a core Israeli dilemma is how to support a more robust Egyptian security presence in Sinai to improve order and counter terrorism, while ensuring that Egypt adheres to the limitations on military deployment that underpin its 1979 peace treaty with Israel. An August 2012 Sinai-based attack on an Egyptian garrison and Israeli border checkpoints—a year after another deadly Sinai-based attack in Israel—highlighted the threat posed by terrorists with apparent links to Al Qaeda-style Palestinian groups. Additional border incursions have subsequently occurred. In response to the August attack, Israeli leaders publicly oscillated between insistence that Egypt’s military act more forcefully, and alarm that Egyptian responses—especially the deployment of tanks—either directly contradicted the treaty⁴¹ or established a dangerous precedent for its future weakening or abolition.

Rocket Threat from Lebanon and Gaza

Israel continues to face a rocket threat from the Gaza Strip/Sinai Peninsula (via Hamas and other militant groups) and Lebanon (via Hezbollah) that has expanded in geographical range in the past few years. Israel engaged in a weeklong conflict with Hamas and other Palestinian militants in

³⁸ On March 5, 2013, Representative Paul Gosar introduced H.Res. 98, which, if passed, would state the House’s full support for “Israel’s lawful exercise of self-defense, including actions to halt Iranian aggression such as a strike against Iran’s illegal nuclear program.” To date, H.Res. 98 has at least 31 co-sponsors (all of whom are Republican).

³⁹ Ben Caspit, “Will Israel Take Out the Russian Missiles in Syria?,” *Al-Monitor Israel Pulse*, May 17, 2013.

⁴⁰ For basic information on UNDOF, which has monitored the Israel-Syria cease-fire since 1974, see <http://www.un.org/en/peacekeeping/missions/undof/facts.shtml>.

⁴¹ There are divergent Israeli and Egyptian accounts over the level of consultation and coordination—required by the treaty—that took place in connection with Egypt’s August 2012 post-attack deployments.

November 2012, and the resulting Egyptian-mediated, U.S.-supported cease-fire has largely held. However, there has been little or no lasting progress in arresting the rocket threat or in negotiating an easing of Israel's perimeter of control in and around Gaza. Meanwhile, Israel continues to deploy and develop programs to defend against a wide variety of ranges of rockets and missiles.

The Palestinian Issue

At the same time, there has been no substantive progress toward a conflict-ending negotiated settlement between Israel and the Palestinians. Neither Israeli leaders, nor Fatah or Hamas leaders preoccupied with maintaining their domestic credibility and respective territorial fiefdoms in the West Bank and Gaza, appear disposed to make substantive compromises with one another. It is unclear to what extent continued stalemate on the Palestinian issue could worsen regional tensions and anti-Israel sentiment, or motivate greater international action seeking to establish Israeli legal and moral culpability for its treatment of Palestinians. Periodically recurring incidents of violence and vandalism involving Israelis (including West Bank settlers) who live and travel in close proximity to Palestinians highlight the difficulty Israeli authorities face both in restraining and protecting their citizens, and could contribute to future tensions.

Political figures from the Israeli left and center, as well as some U.S. and international commentators, continue to stress what they characterize as an urgent need for Israel to return to negotiations. Some analysts assert that Israeli leaders face a dilemma between democracy and demography.⁴² Past prime ministers, including Yitzhak Rabin and Ehud Olmert, claimed that coming to an arrangement with the Palestinians on the West Bank and Gaza would be necessary in order to avoid the situation—otherwise probable within the next decade or two based on demographic trends—of Jews ruling as a numerical minority over a numerical majority of Arabs in historic Palestine. The concerns they enunciated focus on possible domestic and international pressure associated with these demographics, and a choice between giving up Jewish primacy or facing intensified 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 data underlying these concerns. Additionally, the apparent primacy of socioeconomic issues in the 2013 elections could signal that Israelis feel less urgency about the issue than in past years. Prime Minister Netanyahu has reportedly endorsed a two-state solution with his foreign ministry personnel on demographic grounds,⁴³ but such concerns do not appear to be a critical issue for key members of the government such as Defense Minister Ya'alon⁴⁴ and Economy Minister Bennett.

See “Status of Regional and International Diplomacy” below for further analysis of the peace process, including regional factors.

⁴² Akiva Eldar, “Israel's New Politics and the Fate of Palestine,” *The National Interest*, July/August 2012; Peter Beinart, *The Crisis of Zionism*, New York: Times Books, 2012.

⁴³ Susser, “Strategic dilemmas,” op. cit.

⁴⁴ In a June 2012 interview, Ya'alon said, “We can live like this for another 100 years, too.... The demographic argument is a lie.” Ari Shavit, “IDF chief of staff-turned-vice premier: ‘We are not bluffing,’” *Ha'aretz Magazine*, June 14, 2012.

Concerns Regarding International Isolation

Israel and many of its supporters have expressed concern about a sense of international isolation.⁴⁵ Israel's willingness to show flexibility regarding its security practices, negotiating demands, or diplomatic tactics may depend on whether its leaders believe that changes in their policies can change attitudes toward them. Some Israelis argue or imply that efforts to isolate them are led by implacable enemies determined to spread anti-Israel and anti-Semitic attitudes, and thus bear little or no relationship to Israel's policies.⁴⁶ Other Israelis assert a more direct relationship between Israeli policies, such as the construction of Jewish communities or "settlements" (the term used most commonly internationally) in the West Bank and East Jerusalem, and international attitudes toward Israel. This latter set routinely laments what they characterize as extreme approaches by their leaders toward charged issues like the Israeli-Palestinian conflict.⁴⁷

Israel is likely to need U.S. help in improving or mitigating the damage done to various regional and international relationships. U.S.-aided efforts by Israel to repair previously deteriorated relations with Turkey are one example. During President Barack Obama's March 2013 visit to Israel, Prime Minister Netanyahu apologized via telephone to Turkish Prime Minister Recep Tayyip Erdogan for any operational mistakes by Israel during the Gaza flotilla incident of May 2010 "that might have led to the loss of life or injury", and also agreed to conclude an agreement on "compensation/nonliability."⁴⁸ Debate persists on how much and how fast Netanyahu's apology and subsequent, related steps might restore former Israel-Turkey closeness on military, intelligence, and political matters.⁴⁹

⁴⁵ One recent article asserted that Israel's president, Shimon Peres, and former prime ministers Ehud Olmert and Ehud Barak have warned that "unless the occupation of the bulk of the West Bank ends, or Palestinians in the West Bank are given full voting rights in Israel, the country will lose its claim to be a democracy. It will, says Mr. Peres, become a 'pariah', just as South Africa did. The BDS [boycott, divestment, and sanctions] campaign may thus, he implies, become unstoppable. Even the Americans might find it hard to go on backing Israel come hell or high water." "Could two become one?", *Economist*, March 16-22, 2013.

⁴⁶ Inbar, op. cit.; Barry Rubin, "The Region: Is Israel losing support?", *jpost.com*, January 6, 2013.

⁴⁷ In response to Israel's announcement of plans to expand settlement construction in the West Bank and East Jerusalem following the United Nations General Assembly vote in November 2012 to change the observer status of "Palestine" (the Palestine Liberation Organization (PLO)) within the U.N. system from that of an entity to a "non-member state," former Israeli prime minister Ehud Olmert was quoted as saying, "Netanyahu is isolating the State of Israel from [the] entire world in an unprecedented way, and we are going to pay a difficult price for this in every aspect of our lives." "Former PM Olmert: Netanyahu is isolating Israel from the rest of the world," *haaretz.com*, December 8, 2012.

⁴⁸ Summary of conversation between Netanyahu and Erdogan from Israeli Prime Minister's Office website, March 22, 2013. The May 2010 Gaza flotilla incident involved the boarding in international waters by Israeli commandos of a ship that was commissioned by a Turkish Islamist non-governmental organization to carry goods to the Israeli-blockaded Gaza Strip. Under disputed circumstances, the commandos reportedly killed eight Turks and an American of Turkish ancestry and injured several others.

⁴⁹ See, e.g., Oded Eran, "Israel-Turkey Reconciliation Still Remote," *nationalinterest.org*, April 18, 2013; Uzi Mahnaimi, "Israel to corral Iran with Turkish airbase," *Sunday Times* (UK), April 21, 2013. Continuing Israeli restrictions and limitations on the passage of people and goods to and from Gaza's sea coast and its land borders with Israel remain a potential sticking point. State Department transcript of remarks by Secretary of State John Kerry and Turkish Foreign Minister Ahmet Davutoglu, Ciragan Palace, Istanbul, Turkey, April 7, 2013.

Key U.S. Policy Issues

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 maintained close bilateral ties based on common democratic values, religious affinities, and security interests. Relations have evolved through legislation; memoranda of understanding; economic, scientific, and military agreements; and trade. Congress provides military assistance to Israel and has enacted other legislation in explicit support of its security. Many analysts view these forms of support as pillars of a regional security order—largely based on varying types and levels of U.S. arms sales to Israel and Arab countries—that have discouraged the outbreak of major Arab-Israeli interstate conflict for nearly 40 years.⁵⁰

In consequence of possible Israeli concerns about regional challenges and potential changes in levels of U.S. interest and influence in the region, Israeli leaders and their supporters may actively try to persuade U.S. decision makers both that

- Israel’s security and the broader stability of the region continue to be critically important for U.S. interests; and
- Israel has substantial and multifaceted worth as a U.S. ally beyond temporary geopolitical considerations and shared ideals and values.⁵¹

These efforts would seek to perpetuate and bolster the already strong popular and official U.S. commitment to Israel’s security. According to one U.S. commentator, American Israel Public Affairs Committee (AIPAC) president Michael Kassen has deplored what he describes as “the ‘growing allure of isolationism’ in America, which is another way of saying that Israel, among other nations, may command less deference and interest among a new and younger generation of legislators.”⁵²

Israel-sponsored efforts to emphasize its importance to the United States also may aim to minimize possible demands by U.S. policymakers for Israel to compensate the United States for a potentially greater commitment to Israel in response to regional challenges.⁵³ Expectations among some U.S. officials could include greater Israeli deference to and coordination with the United States on regional military action and on diplomacy with Palestinians. This could fuel or intensify U.S.-Israel disagreement over how Israel might continue its traditional prerogative of “defending itself, by itself,” while also receiving external assistance.

⁵⁰ Malka, op. cit., pp. 93-94.

⁵¹ See, e.g., Michael Eisenstadt and David Pollock, *Asset Test: How the United States Benefits from Its Alliance with Israel*, Washington Institute for Near East Policy, September 2012.

⁵² Jacob Heilbrunn, “Israel’s Fraying Image,” *National Interest*, May/June 2013.

⁵³ According to one report, some U.S. military officers and analysts, including “senior Pentagon officials, generals and independent defense strategists,” weigh the “direct military benefits the United States receives from its partnership with Israel ... against the geopolitical costs the relationship imposes on Washington in its dealings with the broader Arab and Muslim world; some suggest a net negative outcome for Washington in the equation.” Nathan Guttman, “Israel Is Strategic Asset After All,” *Jewish Daily Forward*, November 18, 2011.

The U.S.-Israel discourse on key issues affecting Israel's security apparently features points of agreement on overall goals but differences in drawing priorities. A prominent Israeli journalist wrote the following summary of President Obama's March 2013 visit to Israel:

On the Iranian issue, Netanyahu said that there is no time, and that we have to act now, while the Americans told him to calm down. They said that there is time, and that they will only act when the conditions are ripe, and they have no other options on that. As for the Palestinians, it was the exact opposite. The Americans say that there is no time, that we have to act now to rescue Palestinian President Abu Mazen [Mahmoud Abbas], support the moderates and establish a strategic alliance between Israel, the Palestinians, the Turks and the Jordanians. Such an alliance might also include a post-Assad Syria and have an impact on Egypt. In contrast, Netanyahu says, "Calm down. There's still time. We're not ready yet. I will act. I want peace, but only when the conditions are ripe."⁵⁴

Security Cooperation⁵⁵

Background

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

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

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 1987, Israel was designated a "major non-NATO ally" by the Reagan Administration, and in 1988, under the terms of Section 517 of the Foreign Assistance Act of 1961, as amended, Congress codified this status, affording Israel preferential treatment in bidding for U.S. defense contracts and expanding its 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 over bilateral tensions related to Israeli arms sales to China (see "Israeli Arms Sales to Other Countries" below), but resumed in 2005.

⁵⁴ Ben Caspit, "What Really Happened Between Netanyahu and Obama," *Al-Monitor Israel Pulse*, April 11, 2013.

⁵⁵ The Jewish Virtual Library maintains a page that contains hyperlinked documents, speeches, and reports under the heading "U.S.-Israel Relations: Strategic & Military Cooperation," available at <http://www.jewishvirtuallibrary.org/jsource/US-Israel/strattoc.html>.

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

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

Congress and the President enacted the U.S.-Israel Enhanced Security Cooperation Act (P.L. 112-150) in July 2012. The act contains non-binding “sense of Congress” language focusing largely on several possible avenues of cooperation discussed below, including providing Excess Defense Articles; boosting operational, intelligence, and political-military coordination; expediting specific types of arms sales (such as F-35 fighter aircraft, refueling tankers, and “bunker buster” munitions); and additional aid for Israel’s Iron Dome anti-rocket system and U.S.-Israel cooperative missile defense programs. The act also extended deadlines for Israel to access U.S. military stockpiles.

Pending Legislation – U.S.-Israel Strategic Partnership Act of 2013

In early March 2013, slightly differing versions of a U.S.-Israel Strategic Partnership Act of 2013 were introduced in the House (H.R. 938) and the Senate (S. 462) with bipartisan co-sponsors.⁵⁶ Both versions refer to Israel as a “major strategic partner” of the United States—a designation whose meaning has not been further defined in U.S. law or by the executive branch—and contain various other provisions that encourage continued and expanded U.S.-Israel cooperation in a number of areas. Both versions also would extend the war reserves stockpile authority⁵⁷ for Israel through FY2015, and would seek to have the executive branch give Israel the same Strategic Trade Authorization (STA) licensing exception for certain munitions and dual-use items that 36 other countries currently have.⁵⁸

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

⁵⁶ To date, H.R. 938 has at least 292 sponsors, and S. 462 has at least 39.

⁵⁷ For information on the war reserves stockpile authority, under which the United States maintains munitions stockpiles for its own use and for Israel’s use in emergency situations with U.S. permission, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp

⁵⁸ For information on the STA licensing exception, see Export Control Reform Initiative Factsheet #4: License Exception “Strategic Trade Authorization” (STA). Available at: http://new.export.gov/cms_files/ECR%20Factsheet%20-%20-%20STA_Latest_eg_main_047475.pdf. Israel, along with seven other countries, currently has a more limited form of the STA licensing exception.

parts, and support to be in a position to use sophisticated U.S.-made arms against the United States, Israel, or any other U.S. ally in a sustained campaign. Arab critics routinely charge that Israeli officials exaggerate the threat they pose. Ironically, the threat of a nuclear-armed Iran, though it has partially aligned Israeli and Sunni Arab interests in deterring a shared rival, may be exacerbating Israeli fears of a deteriorated QME, as Saudi Arabia and other Gulf states dramatically increase defense procurements from U.S. and other foreign suppliers.

In 2008, Congress enacted legislation requiring that any proposed U.S. arms sale to “any country in the Middle East other than Israel” must include a notification to Congress with a “determination that the sale or export of such would not adversely affect Israel’s qualitative military edge over military threats to Israel.”⁵⁹ In parallel with this legal requirement, U.S. and Israeli officials continually signal their shared understanding of the U.S. commitment to maintaining Israel’s QME. However, the codified definition focuses on preventing arms sales to potential regional Israeli adversaries based on a calculation of conventional military threats. It is unclear whether calls for revisiting this definition or rethinking its implementation may arise in light of the evolving nature of potential regional threats to Israel’s security.

Additionally, what might constitute a legally defined adverse effect to QME is not clarified in U.S. legislation. After 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.⁶⁰ However, absent legislative clarification, the legality of future U.S. arms sales to other regional aid recipients, partners, or allies—including Egypt, Saudi Arabia, Jordan, Lebanon, and Iraq—could become increasingly subject to challenge both by Israeli officials feeling heightened sensitivity to regional threats and by sympathetic U.S. policymakers.

U.S. Security Guarantees?

Although the United States and Israel do not have a mutual defense treaty or agreement that provides formal U.S. security guarantees,⁶¹ successive Administrations have either stated or implied that the United States would help provide for Israel’s defense in the context of discussing specific threats, such as from Iran.⁶² Both houses of Congress routinely introduce and pass

⁵⁹ §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.”

⁶⁰ 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.

⁶¹ The United States and Israel do, however, have a Mutual Defense Assistance Agreement (TIAS 2675, dated July 23, 1952) in effect regarding the provision of U.S. military equipment to Israel (see “End-Use Monitoring”), and have entered into a range of stand-alone agreements, memoranda of understanding, and other arrangements varying in their formality.

⁶² 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 (continued...)

resolutions supporting Israel's right to defend itself and U.S. efforts to bolster Israel's capacity for self-defense. Some resolutions have included language that could imply support for more active U.S. measures to defend Israel. For example, H.Res. 523 and H.Con.Res. 21, both of which overwhelmingly passed the House (in 2005 and 2007, respectively) and addressed a possible Iranian threat, also both reasserted the "commitment of the United States to defend the right of Israel to exist as a free and democratic state."⁶³ Additionally, as mentioned above, S.Res. 65, which the Senate passed in May 2013, stated that the United States should provide "diplomatic, military, and economic support to the Government of Israel in its defense of its territory, people, and existence" in connection with certain specified contingencies relating to Iran's nuclear program.

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

Such an arrangement would seem to be a "no-brainer" for Israel. Yet Jerusalem might in fact be quite reluctant to conclude one. This, for three primary reasons, each deeply entrenched in Israel's national security thinking. First, it would fear a loss of freedom of action, due to the contractual requirement to consult on the means of addressing the threat. Second, it would be concerned lest the US demand that Israel divulge and even forego its independent capabilities. And third, it might worry that the US would not live up to its nuclear commitments, much as NATO allies feared during the Cold War.⁶⁴

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

U.S. Aid and Arms Sales to Israel

Specific figures and comprehensive detail regarding various aspects of U.S. aid and arms sales to Israel are discussed in CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp. This includes information on conditions that generally allow Israel to use its military aid earlier and more flexibly than other countries, and on the effects of budget sequestration regarding various forms of assistance to Israel in FY2013.

(...continued)

toward Israel and pursuit of a nuclear program, President George W. Bush said, "I made it clear, I'll make it clear again, that we will use military might to protect our ally Israel." Seymour M. Hersh, "The Iran Plans," *New Yorker*, April 17, 2006.

⁶³ Additionally, in response to Iraqi Scud missile attacks on Israel during the 1991 Gulf War, both the House (H.Con.Res. 41) and Senate (S.Con.Res. 4) unanimously passed January 1991 resolutions "reaffirming America's continued commitment" to provide Israel with the means to maintain its freedom and security.

⁶⁴ Richard N. Rosecrance and Chuck Freilich, "Confronting Iran: A US Security Guarantee for Israel?," *bitterlemons-international.org*, July 6, 2006. See also Chuck Freilich, *Speaking About the Unspeakable: U.S.-Israeli Dialogue on Iran's Nuclear Program*, Washington Institute for Near East Policy, PolicyFocus #77, December 2007; Malka, op. cit., pp. 84-89.

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 one half of total FMF and 20% of Israel’s defense budget. The remaining six years of a 10-year bilateral memorandum of understanding commits the United States to \$3.1 billion annually from FY2013 to FY2018, subject to congressional appropriations. Israel uses approximately 75% of its FMF to purchase arms from the United States, in addition to receiving U.S. Excess Defense Articles (EDA). Congress routinely provides hundreds of millions of dollars in additional annual assistance for the Israel’s Iron Dome anti-rocket system⁶⁵ and joint U.S.-Israel missile defense programs such as Arrow and David’s Sling.

During an April 2013 visit to Israel, Secretary of Defense Chuck Hagel confirmed arms sales worth a total of \$10 billion to Israel, Saudi Arabia, and the United Arab Emirates.⁶⁶ The deal, which most observers assert is intended to counter Iranian regional influence, would reportedly include new-generation KC-135 refueling tankers that could increase Israeli long-range strike capabilities, such as for military action against Iranian nuclear facilities.⁶⁷ In a report before the deal’s official announcement, a *New York Times* article stated that “Congressional officials said members were seeking assurances that the package was in keeping with American policy to guarantee Israel’s ‘qualitative military edge’ while not recklessly emboldening Israeli hawks.”⁶⁸

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

⁶⁵ Reports based on Israeli military sources indicate that initial uses of Iron Dome in 2011 and 2012, including during the November 2012 Israel-Gaza conflict, showed a high rate of success—possibly around 80%—in intercepting short-range rockets fired from Gaza. It is unknown if the United States or another third party has independently verified Israeli claims, and analysts have debated the claims’ validity. Although Iron Dome is costly in comparison with the Gaza-based rockets it has intercepted, analysts debate whether the system’s cost-effectiveness is better measured by armament attrition or by comparing the system’s costs with estimates of damage that would likely occur in its absence. See, e.g., Philip Giraldi, “Is Iron Dome the Maginot Line?”, *theamericanconservative.com*, December 3, 2012; Matthew Fargo, “Iron Dome – A Watershed for Missile Defense?”, *csis.org/blog*, December 3, 2012. For more information, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

⁶⁶ David Alexander, “Arms deal with Middle East allies signal to Iran: Hagel,” *Reuters*, April 21, 2013.

⁶⁷ Thom Shanker, “Arms Deal with Israel and 2 Arab Nations Is Near,” *New York Times*, April 19, 2013.

⁶⁸ *Ibid.*

Table 3. U.S. Bilateral Aid to Israel
(historical \$ in millions)

Year	Total	Military Grant	Economic Grant	Immig. Grant	ASHA	All other
1949-1996	68,030.9	29,014.9	23,122.4	868.9	121.4	14,903.3
1997	3,132.1	1,800.0	1,200.0	80.0	2.1	50.0
1998	3,080.0	1,800.0	1,200.0	80.0	—	—
1999	3,010.0	1,860.0	1,080.0	70.0	—	—
2000	4,131.85	3,120.0	949.1	60.0	2.75	—
2001	2,876.05	1,975.6	838.2	60.0	2.25	—
2002	2,850.65	2,040.0	720.0	60.0	2.65	28.0
2003	3,745.15	3,086.4	596.1	59.6	3.05	—
2004	2,687.25	2,147.3	477.2	49.7	3.15	9.9
2005	2,612.15	2,202.2	357.0	50.0	2.95	—
2006	2,534.5	2,257.0	237.0	40.0	—	0.5
2007	2,503.15	2,340.0	120.0	40.0	2.95	0.2
2008	2,423.9	2,380.0	—	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	3,098.0	3,075.0	—	20.0	3.00	—
2013	3,115.0 (Before Sequestration)	3,100.0	—	15.0	—	—
2014 Request	3,115.0	3,100.0	—	15.0	—	—
Total	118,247.57	70,523.4	30,897.0	1,673.2	162.075	14,991.9

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

**Table 4. Defense Budget Appropriations for U.S.-Israeli Missile Defense:
FY2006-FY2014 Request**
(historical \$ in millions)

Fiscal Year	Arrow II	Arrow III (High Altitude)	David's Sling (Short-Range)	Iron Dome	Total
FY2006	122.866	—	10.0	—	132.866
FY2007	117.494	—	20.4	—	137.894
FY2008	98.572	20.0	37.0	—	155.572
FY2009	74.342	30.0	72.895	—	177.237
FY2010	72.306	50.036	80.092	—	202.434
FY2011	66.427	58.966	84.722	205.0	415.115
FY2012	58.955	66.220	110.525	70.0 ^a	305.700
FY2013 Before Sequestration	44.365	74.692	149.679	211.0	479.736
FY2014 Request	10.663	52.607	32.512	220.0	315.782

- a. These funds were not appropriated by Congress, but reprogrammed by the Obama Administration from other Department of Defense accounts.

Israeli-Palestinian Issues

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

Status of Regional and International Diplomacy

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. 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. However, Israeli leaders appear to have become increasingly concerned—given ongoing Arab political change—that they cannot count on future positive ties even with states such as Egypt and Jordan.⁶⁹ This assessment has likely led Israel to perceive greater risks in a potential land-for-peace deal, perhaps due to a calculation that continued possession of territory may be a more reliable guarantor of security than an agreement with one or more Arab entities.

For their part, Palestinian leaders and Arab state rulers may find it harder to move toward formal peace with Israel if they become more accountable to public opinion focused on Israel and its indicia of control in the West Bank, Gaza, and Jerusalem. Formally, the League of Arab States

⁶⁹ 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.

(Arab League) remains committed to “land for peace,” as reflected in the 2002 Arab Peace Initiative.⁷⁰

The United States, together with the other members of the international Quartet (the European Union, the United Nations Secretary-General’s office, and Russia), continues to advocate for Israeli-Palestinian talks aimed at a peace deal under the framework initially established by the Oslo agreements of the 1990s. During the first two years of President Obama’s and Prime Minister Netanyahu’s time in office, attempts by Palestinians to link a meaningful resumption of negotiations to a freeze in Israeli settlement construction beyond the Green Line (the armistice line that divided Israel from the West Bank prior to the 1967 Arab-Israeli War)—claiming inspiration from Obama’s public call for this freeze in 2009—were unsuccessful.⁷³

During the next two years, PLO Chairman Mahmoud Abbas opted to pursue initiatives outside of the negotiating process at the United Nations and U.N.-related agencies. These initiatives were aimed at increasing the international legitimacy of Palestinian claims of statehood in the West Bank and Gaza. On November 29, 2012, the U.N. General Assembly (UNGA) adopted Resolution 67/19, changing the permanent observer status of the PLO (recognized as “Palestine” within the U.N. system) from an “entity” to a “non-

Israel’s New Government and the Peace Process

How the Israeli government that was formed in March will act on Israeli-Palestinian issues remains unclear. Although Yesh Atid leader and Finance Minister Yair Lapid may have political interests in drawing distinctions with Prime Minister Netanyahu, so far he has not sought to do so by reference to Israeli-Palestinian issues—despite apparent hopes that he might among some officials and analysts internationally, including in the United States. Lapid may partly be seeking to avoid perceptions of external influence, and partly be mirroring the skepticism voiced among some elements of the government about the idea of a peace deal based on Israeli relinquishing territory.⁷¹ Economy Minister Naftali Bennett’s pro-settler party could obstruct negotiating opportunities that depend on limiting settlement planning and construction, due to its control over the housing ministry. Moreover, government ministers favoring a return to negotiations remain constrained by widespread popular concerns regarding the security risks of military withdrawal or territorial concessions in the West Bank.⁷²

⁷⁰ 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>.

⁷¹ Although Lapid publicly supports a return to negotiations, he has voiced opposition to a settlement freeze as well as skepticism that PLO Chairman Mahmoud Abbas is a “partner for peace.” Jodi Rudoren, “Fresh Israeli Face Plays Down Dimming of Political Star,” *New York Times*, May 19, 2013, with additional quotes from this interview with Lapid included at <https://www.facebook.com/rudoren/posts/10201162356036803?mde=%2Fsharer-dialog.php%3Fsid%3D10201162356036803&mdf=1>. Justice Minister Tzipi Livni, who has responsibility for the Palestinian portfolio, and—like Lapid—is a centrist political figure, though less electorally popular, has criticized Lapid’s statements as a hindrance to the peace process.

⁷² Israel has faced heightened security threats, largely from rockets deployed by Hezbollah and Palestinian militants, following its military’s withdrawal from southern Lebanon in 2000 and from the Gaza Strip in 2005.

⁷³ Netanyahu accepted the idea of a two-state solution in principle, but insisted that any Palestinian state would need to be demilitarized and remain subject to indefinite Israeli control of its airspace, the electromagnetic spectrum used for telecommunications, and the Jordan Valley. President Obama’s May 2011 speeches calling for renewed Israeli-Palestinian negotiations focused on the issues of borders and security parameters. Netanyahu complained that Obama’s proposal to use the Green Line as the reference point for border negotiations did not properly take into account historical Israeli security concerns regarding defensibility of territory.

member state.”⁷⁴ This took place a year after the PLO gained admission in November 2011 to the U.N. Educational, Scientific and Cultural Organization (UNESCO).⁷⁵ The change that Resolution 67/19 made to the PLO’s U.N. permanent observer status is largely symbolic. However, it may increase the probability that the Palestinians and other international actors could take future steps—particularly in the International Criminal Court (ICC)—toward legal action against Israelis for alleged violations of international laws and norms regarding the treatment of people and property in the West Bank and Gaza.⁷⁶ The PLO has reportedly frozen possible action in international fora temporarily in order to give U.S. efforts at restarting diplomacy some time to bear fruit.

Shortly after beginning his second term, President Obama traveled to Israel in March 2013 and told the Israeli people that “this is precisely the time to respond to the wave of revolution [in the region] with a resolve and commitment for peace.”⁷⁷ Secretary of State John Kerry has been active in regional diplomacy in an apparent bid to draw Israel and the Palestine Liberation Organization (PLO) into resuming negotiations on issues like borders and security.⁷⁸ The extent to which Kerry’s apparent investment in the peace process might translate into commitment and action on the issue from the White House is unclear.⁷⁹ One potentially significant development was the late April 2013 statement by Qatari Prime Minister Sheikh Hamad bin Jassim al Thani during a visit to Washington, DC, with other Arab League officials publicly contemplating that “comparable and mutual[ly] agreed minor” land swaps could be one aspect of a conflict-ending agreement.⁸⁰

Chairman Abbas and his colleagues have indicated reluctance to resume talks or agree to land swaps as an “advance payment”⁸¹ if Israel is unwilling to take certain steps. These include freezing West Bank and East Jerusalem settlement construction at least partially, releasing some Palestinian prisoners, allowing greater Palestinian use or ownership of Israeli-controlled West Bank land, and/or specifically outlining a border agreement plan. Prime Minister Netanyahu has publicly resisted such measures, though there are media reports that he is temporarily and

⁷⁴ 138 member states voted in favor of Resolution 67/19, nine voted against (including the United States and Israel), and 41 abstained. The PLO has had permanent observer status at the United Nations since 1974. “Palestine” maintains many of the capacities it had as an observer entity—including participation in General Assembly debates and the ability to co-sponsor draft resolutions and decisions related to proceedings on Palestinian and Middle East issues. However, it is not a member of the United Nations, and does not have the right to vote or to call for a vote in the General Assembly.

⁷⁵ However, the PLO’s fall 2011 application to obtain membership in the United Nations was unsuccessful. U.N. Security Council, “Report of the Committee on the Admission of New Members concerning the application of Palestine for admission to membership in the United Nations,” S/2011/705, November 11, 2011.

⁷⁶ An April 2012 opinion by the ICC’s Office of the Prosecutor, which determined that there was no basis for it to consider a declaration of consent by “Palestine” to ICC jurisdiction in the West Bank and Gaza, appeared to rule that guidance from the U.N. General Assembly would be decisive in determining whether the PLO or Palestinian Authority had competence as a state to consent to ICC jurisdiction. International Criminal Court, Office of the Prosecutor, “Situation in Palestine,” April 3, 2012. Some analyses assert, however, that legal ambiguities remain. See, e.g., John Cerone, “Legal Implications of the UN General Assembly Vote to Accord Palestine the Status of Observer State,” *insights*, American Society of International Law, December 7, 2012.

⁷⁷ White House transcript of remarks by President Barack Obama, Jerusalem International Convention Center, March 21, 2013.

⁷⁸ Jay Solomon and Joshua Mitnick, “U.S. to Open Wallet in Mideast Peace Bid,” *wsj.com*, April 9, 2013; Robert Danin, “A second chance for the Arab Peace Initiative?,” *foreignpolicy.com*, April 30, 2013.

⁷⁹ See, e.g., Elise Labott, “Analysis: Kerry ready to dirty hands in diplomatic deal-making,” *cnn.com*, May 7, 2013.

⁸⁰ State Department transcript of remarks by al Thani, Washington, DC, April 29, 2013.

⁸¹ “Fatah official: Too early to talk about land swaps,” *Ma’an*, May 4, 2013.

discreetly curtailing new settlement construction plans in line with U.S. efforts to restart direct Israel-Palestinian negotiations.⁸² Netanyahu has called upon Abbas to negotiate without preconditions. However, Netanyahu has expressed skepticism that possible Arab state support for land swaps, absent additional overtures, would be acceptable to Israel, having been quoted as saying, “The root of the conflict isn’t territorial,” but rather is the “Palestinians’ failure to accept the State of Israel as the nation-state of the Jewish people.”⁸³

Meanwhile, reports routinely speculate about the possibility of “unity,” or, more precisely, a consensus Palestinian Authority (PA) governance arrangement between Fatah and Hamas (the main two Palestinian factions) for the West Bank and Gaza with a pathway to presidential and legislative elections and a greater role for Hamas in the PLO.⁸⁴ If Hamas involvement in the PLO and PA were to increase, Israel would face more complicated choices about whether and how to deal with the Palestinians. Thus far, Israel and the Quartet have rejected the possibility of dealing with a Palestinian entity that involves Hamas—a U.S.-designated foreign terrorist organization—unless the entity’s leaders clearly accept the “Quartet principles,” under which they would recognize Israel’s right to exist, reject violence, and agree to honor past Israeli-Palestinian agreements. However, because Hamas controls Gaza, its exclusion from the peace process raises questions about whether the PLO’s claim to represent all Palestinians would be credible in potential future talks with Israel.

Hamas’s future direction is unclear. Unrest and conflict in Syria have reportedly led to a weakening of—but not a complete break in—its ties with Iran. Hamas’s external leadership left its Damascus headquarters in late 2011/early 2012 and is emphasizing its Muslim Brotherhood roots.⁸⁵ The implications of reported power struggles among various nodes of Hamas’s leadership remain unclear for Hamas’s political and military stances and the threats it and other Gaza-based armed groups may pose to Israel.⁸⁶

Partly as a result of the uncertainty surrounding Hamas’s future, implications are unclear for West Bank-Gaza political unity, and by extension, Israeli-Palestinian negotiations. Lack of Fatah-Hamas accommodation could fuel further cultural and political separation between Palestinians,⁸⁷ and growing gaps between Palestinians in the West Bank and Gaza could worsen the credibility problems Mahmoud Abbas already faces in presenting himself as the sole spokesman for the national movement. Commercial links between Gaza and non-Palestinian actors in the Sinai and the Gulf⁸⁸ could exacerbate the territory’s separation from the West Bank. These outside links may expand at least partly due to the limits Israel places on the flow of people and goods at its borders with Gaza and from Gaza’s Mediterranean coast.⁸⁹ If outside links to Gaza grow in

⁸² See “Settlements” below.

⁸³ “One Step Forward,” *New York Times*, May 2, 2013.

⁸⁴ The PLO is the internationally recognized representative of the Palestinian people. The PA was created pursuant to various Israel-PLO agreements during the Oslo process in the 1990s as the organ of governance for limited Palestinian self-rule in the West Bank and Gaza Strip.

⁸⁵ “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.

⁸⁶ CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti.

⁸⁷ This separation may be partially explained by the lack of a territorial link between the two Palestinian territories, and partially explained by geography and recent history linking the Gaza Strip with Egypt and the West Bank with Jordan.

⁸⁸ Qatar’s emir visited Gaza in October to pledge \$400 million in assistance for building and road infrastructure projects. Qatar is reportedly using Egypt’s Rafah crossing to transport construction materials into the territory.

⁸⁹ Nicolas Pelham, “Gaza’s Tunnel Phenomenon: The Unintended Dynamics of Israel’s Siege,” *Journal of Palestine* (continued...)

relative importance, they may reinforce the assertions of Israelis who insist that Israel has not borne legal responsibility for Gaza or its residents since its withdrawal of military personnel and soldiers in 2005. One Israeli analyst has written that “in divesting itself of just 1.5 percent of the land [of British Mandate-era Palestine], Israel significantly recalibrated the so-called ‘demographic equation’ (the ratio of Jews to Arabs in the area under its control).”⁹⁰

Jerusalem

Israel annexed East Jerusalem (which includes the walled Old City, with its Temple Mount/Haram al Sharif and Western Wall, and most of the surrounding “historic basin”) and some of its immediate West Bank vicinity in 1967—shortly after occupying these areas militarily in the June 1967 Arab-Israeli War. In doing so, Israel joined these newly occupied areas,⁹¹ which featured a predominantly Arab population, to the predominantly Jewish western part of the city it had controlled since 1948. Israel proclaimed this entire area to be Israel’s eternal, undivided capital.⁹² 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.⁹³ Israel’s annexation of areas beyond the Green Line is generally not internationally recognized.

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

A related issue is the possible future relocation of the U.S. embassy from Tel Aviv to Jerusalem. Proponents argue that Israel is the only country where a U.S. embassy is not in the capital identified by the host country, that Israel’s claim to West Jerusalem—proposed site of an embassy—is unquestioned, and/or that Palestinians must be disabused of their hope for a capital in Jerusalem. Opponents say such a move would undermine prospects for Israeli-Palestinian peace and U.S. credibility with Palestinians and in the Muslim 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.

(...continued)

Studies, vol. XLI, no. 4, Summer 2012.

⁹⁰ Daniel Levy, “Seven Lean Years of Peacemaking,” *New York Times*, September 11, 2012.

⁹¹ Jordan had occupied these areas militarily since 1948, and unilaterally annexed them and the entire West Bank in 1950. It only ceded its claims to the Palestine Liberation Organization (PLO) in 1988.

⁹² In 1980, under the first Likud Party government, the Israeli Knesset passed the Basic Law: Jerusalem—Capital of Israel, which declares “Jerusalem, complete and united, is the capital of Israel.” See <http://www.mfa.gov.il> for the complete text of the Basic Law. Israel had first declared Jerusalem to be its capital in 1950.

⁹³ “Poll: Most Israelis Support East Jerusalem Construction,” *Ynetnews.com*, March 22, 2010.

The State Department Authorization Act for FY2002-FY2003 (P.L. 107-228) urged the President to begin relocating the U.S. embassy “immediately.” The act also sought to (1) prohibit the use of appropriated funds for the operation of U.S. diplomatic facilities in Jerusalem unless such facilities were overseen by the U.S. ambassador to Israel; and (2) allow Israel to be recorded as the place of birth of U.S. citizens born in Jerusalem. When signing the act into law, President George W. Bush wrote in an accompanying “signing statement” that the various provisions on Jerusalem would, “if construed as mandatory . . . impermissibly interfere with the president’s constitutional authority to conduct the nation’s foreign affairs.” The State Department declared, “our view of Jerusalem is unchanged. Jerusalem is a permanent status issue to be negotiated between the parties.” The case of *Zivotofsky v. Clinton*,⁹⁴ remanded by the Supreme Court in March 2012 for further action in lower federal courts, could decide or have implications for Congress’s constitutional authority on questions relating to the status of Jerusalem and could influence its future ability to direct the executive branch in its conduct of foreign affairs more broadly.

Over successive Congresses, including the 113th, various Members have periodically introduced substantially similar versions of a Jerusalem Embassy and Recognition Act (see, e.g., H.R. 104, H.R. 252, and S. 604). 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 approximately 139 residential communities (known internationally and by significant segments of Israeli society as “settlements”), approximately 105 settlement outposts unauthorized under Israeli law, and other military and civilian land-use sites in the West Bank. In addition, depending on how one defines what constitutes a separate neighborhood or settlement in East Jerusalem, Israeli authorities and Jewish Israeli citizens have established roughly between 14 and 17 main residential areas there. Approximately 300,000 Israelis live in West Bank settlements, with roughly 200,000 more in East Jerusalem.⁹⁵ All of these residential communities are located in areas that the Palestinians view as part of their future state. The first settlements were constructed following the 1967 war, and were initially justified as directly associated with Israel’s military occupation of the West Bank. Major residential settlement building began in the late 1970s with the advent of the pro-settler Gush Emunim (“Bloc of the Faithful”) movement and the 1977 electoral victory of Menachem Begin and the Likud Party. Existing settlements were expanded and new ones established throughout the 1990s and 2000s despite the advent of the Madrid-Oslo peace process with the Palestinians. Israelis who defend the settlements’ legitimacy generally use some combination of legal, historical, strategic, nationalistic, or religious justifications.⁹⁶

⁹⁴ *Zivotofsky v. Clinton*, U.S. Supreme Court Docket No. 10-699, March 26, 2012. The case involves a U.S. citizen who was born in Jerusalem, and whose parents are suing on his behalf to have the State Department reflect Israel as his birthplace on his passport.

⁹⁵ These figures and additional data on settlements and outposts are available at http://www.fmep.org/settlement_info.

⁹⁶ 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.

The international community generally considers Israeli construction on territory beyond the Green Line to be illegal.⁹⁷ Israel retains military control over the West Bank and has largely completed a separation barrier⁹⁸ on West Bank territory that in some places corresponds with the Green Line but in others goes significantly beyond it. The barrier is intended to separate Israelis and Palestinians and prevent terrorists from entering Israel. Palestinians object to the barrier being built on their territory because it cuts Palestinians off from East Jerusalem and, in some places, bisects their landholdings and communities. It also is seen by many as an Israeli device to unilaterally determine borders between Israel and a future Palestinian state.

U.S. policy on settlements has varied since 1967. Until the 1980s, multiple Administrations either stated or implied that settlements were “contrary to international law,” with President Carter’s Secretary of State Cyrus Vance stating explicitly that settlements were “illegal” in 1980.⁹⁹ President Reagan later stated that settlements were “not illegal,” but “ill-advised” and “unnecessarily provocative.” Since then, the executive branch has generally refrained from pronouncements on the settlements’ legality.¹⁰⁰ A common U.S. stance has been that settlements are an “obstacle to peace.” Loan guarantees to Israel currently authorized by U.S. law are subject to possible reduction by an amount equal to the amount Israel spends on settlements in the occupied territories. The executive branch made its most recent reduction in FY2005.¹⁰¹

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

Upon taking office, in the context 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.”¹⁰² PLO leaders followed suit and made a settlement freeze a precondition for

⁹⁷ 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.

⁹⁸ 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.”

⁹⁹ Daniel Kurtzer, “Do Settlements Matter? An American Perspective,” *Middle East Policy*, vol. 16, issue 3, Fall 2009.

¹⁰⁰ Nicholas Rostow, “Are the Settlements Illegal?,” *The American Interest*, March/April 2010.

¹⁰¹ For more information on this issue, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

¹⁰² U.S. and Israeli leaders publicly differed on whether Obama’s expectations of Israel contradicted statements that the George W. Bush Administration had made. Some Israeli officials and former Bush Administration officials said that the United States and Israel had reached an unwritten understanding that “Israel could add homes in settlements it expected to keep [once a final resolution with the Palestinians was reached], as long as the construction was dictated by market demand, not subsidies.” Glenn Kessler and Howard Schneider, “U.S. Presses Israel to End Expansion,” *Washington Post*, May 24, 2009. This article quotes former Bush Administration deputy national security advisor (continued...)

their return to the peace talks. Israel responded with a partial 10-month moratorium, but tentative efforts to restart negotiations did not take hold during that time. In February 2011, the United States vetoed a draft U.N. Security Council resolution that would have characterized Israeli settlements in the West Bank and East Jerusalem as illegal. All other 14 members of the Council, including the United Kingdom, France, and Germany, voted for the draft resolution. Susan Rice, the U.S. Permanent Representative to the United Nations, clarified that the Administration still opposed settlement construction as illegitimate and at cross-purposes with peace efforts.¹⁰³

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

- (1) influence over key voting blocs in Israel's coalition-based parliamentary system (although they do not all share the same ideology or interests, settlers constitute about 6% of the Israeli population);
- (2) renegade actions to foment public protest and even violence;¹⁰⁴ 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.¹⁰⁵ Some Israelis caution that the demand to provide security to settlers and their infrastructure and transportation links to Israel could perpetuate Israeli military control in the West Bank even if other rationales for maintaining such control eventually recede. Protecting settlers is made more difficult and manpower-intensive by some settlers' provocations of Palestinian West Bank residents and Israeli military authorities. The government complied in 2012 with rulings by Israel's Supreme Court requiring it to dismantle two outposts. It has sought to placate settler opposition to dismantlement by relocating the displaced outpost residents within the boundaries of settlements permitted under Israeli law.¹⁰⁶

(...continued)

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.

¹⁰³ "United States vetoes Security Council resolution on Israeli settlements," UN News Centre, February 18, 2011.

¹⁰⁴ 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."

¹⁰⁵ Joel Greenberg, "Netanyahu strengthens his base within Likud," *Washington Post*, February 2, 2011.

¹⁰⁶ Joel Greenberg, "Israeli settlers evacuated from West Bank outpost following court order," *Washington Post*, September 2, 2012.

Some reports indicate that Israel is temporarily freezing some settlement construction plans, perhaps in connection with U.S. efforts to revive the peace process.¹⁰⁷ However, Israel is apparently moving forward with settlement plans in at least one case and reportedly planning to retroactively legalize some outposts previously unsanctioned under Israeli law.¹⁰⁸

Sensitive Defense Technology and Intelligence Issues

Arms sales, information sharing, and co-development of technology between the United States and Israel raises questions about what Israel might do with capabilities or information it acquires. The 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)¹⁰⁹ and the regulations promulgated to implement it. Section 3 of the AECA stipulates that in order to remain eligible to purchase U.S. defense articles, training, and services, foreign governments must agree not to use purchased items and/or training for purposes other than those permitted by the act, or to transfer them to third-party countries (except under certain specifically enunciated conditions), without the prior consent of the President.

Israeli Arms Sales to Other Countries

Israel is a major arms exporter—with India, China, and Russia among its customers or past customers.¹¹⁰ The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China.¹¹¹ In 2003, Israel's agreement to upgrade radar-seeking Harpy Killer drones that it sold to China in 1999 dismayed the Department of Defense (DOD). DOD retaliated by suspending its joint strategic dialogue with Israel and its technological cooperation with the Israel Air Force on the F-35 Joint Strike Fighter (JSF) aircraft and several other programs, among other measures.

¹⁰⁷ Maayan Lubell, "Israel to authorize four West Bank settler outposts," *Reuters*, May 16, 2013.

¹⁰⁸ *Ibid.* In the event settlement plans move forward, they may include proposals for approval of construction in an area of the West Bank known as E-1, which is located immediately to the east of Israel's municipal boundaries for Jerusalem. "Briefing: Inside the E-1 Israeli settlement," Integrated Regional Information Networks (IRIN), March 14, 2013. Domestic and international critics surmise that significant development in E-1 could harm prospects for a future two-state solution by sundering a key geographic corridor between the West Bank's main northern and southern population centers, though it is unclear whether E-1 construction would necessarily close off future diplomatic options. Robert Blecher, "Jerusalem in the Here and Now," *foreignpolicy.com*, February 12, 2013; Andrew Friedman, "Is E1 for Real?," *Jerusalem Report*, April 8, 2013.

¹⁰⁹ 22 U.S.C. §2785.

¹¹⁰ Other customers for Israeli arms include Germany, Spain, France, Canada, Australia, Turkey, Singapore, Brazil, Italy, the Netherlands, Poland, Finland, Azerbaijan, and Romania. Israel is also reportedly seeking to expand arms exports to Latin America.

¹¹¹ Office of Naval Intelligence, *Worldwide Challenges to Naval Strike Warfare*, 1996. The 1997 edition of this report said that the design for China's J-10 fighter (also known as the F-10—the designation used in the report) "had been undertaken with substantial direct assistance, primarily from Israel and Russia, and with indirect assistance through access to U.S. technologies." ONI, *Worldwide Challenges to Naval Strike Warfare*, 1997. See also Robert Hewson, "Chinese J-10 'benefited from the Lavi project,'" *Jane's Defence Weekly*, May 16, 2008; Duncan L. Clarke and Robert J. Johnston, "U.S. Dual-Use Exports to China, Chinese Behavior, and the Israel Factor: Effective Controls?" *Asian Survey*, Vol. 39, No. 2, March-April 1999. The Lavi fighter (roughly comparable to the U.S. F-16) was developed in Israel during the 1980s with approximately \$1.5 billion in U.S. assistance, but did not get past the prototype stage.

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.”¹¹² Thereafter, the U.S.-Israel joint strategic dialogue resumed. Sources have reported that this understanding has given the United States de facto veto power over Israeli third-party arms sales that the United States deems harmful to its national security interests.¹¹³

End-Use Monitoring

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

The Government of Israel assures the United States Government that such equipment, materials, or services as may be acquired from the United States ... are required for and will 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 2006.¹¹⁴ Other examples include findings issued in 1978, 1979, and 1982 with regard to Israel’s military operations in Lebanon and Israel’s air strike on Iraq’s nuclear reactor complex at Osirak in 1981. The Reagan Administration suspended the delivery of cluster munitions to Israel from 1982 to 1988 based on concerns about their use in Lebanon. The Reagan Administration also briefly delayed a scheduled shipment of F-15 and F-16 aircraft to Israel following Israel’s 1981 strike on Iraq. If Israel takes future action with U.S. defense articles to preempt perceived security threats, allegations of AECA violations could follow.¹¹⁵

¹¹² “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.

¹¹³ “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.”

¹¹⁴ Sean McCormack, U.S. Department of State Spokesman, Daily Press Briefing, Washington, DC, January 29, 2007. The Consolidated Appropriations Act, 2008 (P.L. 110-161) significantly restricted the export of U.S.-manufactured cluster munitions. Restrictions on cluster munitions exports have been carried forward to apply to appropriations in subsequent years as well. Since 2008, Israel has been acquiring domestically manufactured cluster munitions.

¹¹⁵ 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. During the 111th Congress, 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.

Espionage-Related Cases

In the past 25 years, there have been at least three cases in which U.S. government employees were convicted of disclosing classified information to Israel or of conspiracy to act as an Israeli agent. The most prominent is that of Jonathan Pollard, who pled guilty in 1986 with his then wife Anne to selling classified documents to Israel. Israel granted Pollard—who is serving a life sentence in U.S. federal prison—citizenship in 1996 and, in 1998, acknowledged that Pollard had been its agent. Prime Minister Netanyahu and several of his predecessors have unsuccessfully petitioned various Presidents to pardon Pollard.¹¹⁶

Israel's Nuclear Status and Non-Proliferation¹¹⁷

Consensus among media and expert reports is that Israel possesses an arsenal of 80 to 200 nuclear weapons.¹¹⁸ The United States has countenanced Israel's nuclear ambiguity since September 1969, when Israeli Prime Minister Golda Meir and U.S. President Richard Nixon reportedly reached an accord whereby both sides agreed never to acknowledge Israel's nuclear arsenal in public.¹¹⁹

Israel's ambiguous nuclear status is viewed by some members of the international community as an obstacle to advancing non-proliferation objectives. The 1995 Non-Proliferation Treaty (NPT) Review Conference adopted a resolution that called for “all States in the Middle East to take practical steps” toward establishing “an effectively verifiable Middle East zone free of weapons of mass destruction, nuclear, chemical and biological, and their delivery systems”. Israel is not an NPT state. The Obama Administration has stated its support for the nuclear-weapon-free zone.

Bilateral Trade Issues

The United States is Israel's largest single-country trading partner,¹²⁰ and—according to data from the U.S. International Trade Commission—Israel is the United States's 26th-largest trading partner.¹²¹ The two countries 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

¹¹⁶ The second case is that of Department of Defense analyst Lawrence Franklin, who pled guilty in 2006 to disclosing classified information to an Israeli diplomat and to two lobbyists from the American Israel Public Affairs Committee (AIPAC). The third case is that of Ben-Ami Kadish, who had worked at the U.S. Army's Armament Research, Development, and Engineering Center in Dover, New Jersey. Kadish pled guilty in 2009 to one count of conspiracy to act as an unregistered agent of Israel.

¹¹⁷ For information on Israel's nuclear activities, see CRS Report R40439, *Nuclear Weapons R&D Organizations in Nine Nations*, coordinated by Jonathan Medalia.

¹¹⁸ See footnote 31.

¹¹⁹ Eli Lake, “Secret U.S.-Israel Nuclear Accord in Jeopardy,” *Washington Times*, May 6, 2009.

¹²⁰ According to a document entitled “Israel: EU Bilateral Trade and Trade with the World” generated by the European Commission's Directorate General for Trade on May 23, 2013, the countries of the European Union account for 31.6% of Israel's total trade volume, while the United States accounts for 20.1%.

¹²¹ Statistics on Israel's status relative to other U.S. trading partners compiled by the U.S. International Trade Commission, available at http://dataweb.usitc.gov/SCRIPTS/cy_m3_run.asp.

of the U.S.-Israel free trade area. In 2011, Israel imported \$14.3 billion in goods from and exported \$22.1 billion in goods to the United States.¹²² The United States and Israel have launched several programs to stimulate Israeli industrial and scientific research, for which Congress has authorized and appropriated funds on several occasions.¹²³

The “Special 301” provisions of the Trade Act of 1974, as amended, require the U.S. Trade Representative (USTR) to identify countries which deny adequate and effective protection of intellectual property rights (IPR). In April 2005, the USTR elevated Israel from its “Watch List” to its “Priority Watch List” because it had an “inadequate data protection regime” and intended to pass legislation to reduce patent term extensions. The USTR has retained Israel on the Priority Watch List in subsequent years, including in 2012, when it was one of 13 countries on the list.¹²⁴

Pending Visa Waiver Legislation

Both the House and the Senate versions of the U.S.-Israel Strategic Partnership Act (H.R. 938 and S. 462, respectively) encourage Israel’s inclusion in the U.S. visa waiver program.¹²⁵ The Senate version would amend the Immigration and Nationality Act (8 U.S.C. §1187(c)(2)) to exempt Israel from a requirement that links program country eligibility to a specific maximum rate of past nonimmigrant visa refusals. S. 462 also might provide an exemption for Israel from the general legal requirement that a country provide reciprocal visa-free travel privileges to U.S. citizens if the Secretary of State certifies that Israel has made “every reasonable effort, without jeopardizing the security of the State of Israel, to ensure that reciprocal travel privileges are extended to all United States citizens.” The possibility of an exemption for Israel on the reciprocity requirement has reportedly “drawn criticism from lawmakers, Arab-American groups and some Jewish critics, who say it would validate Israel’s practice of profiling U.S. citizens of Arab, Muslim and Palestinian extraction and often denying them entry to the country on unspecified security grounds.”¹²⁶ Senator Barbara Boxer, the bill’s sponsor, has been cited as arguing that the provision in question would “give the United States leverage to pressure Israel” to stop the reported differential treatment of U.S. citizens based on ethnic background.¹²⁷ H.R. 938 would not provide visa waiver exemptions for Israel, but would instead simply state that Israel should be designated a visa waiver program country when it satisfies the requirements for inclusion. The visa waiver provision in S. 462 is substantially similar to stand-alone legislation on

¹²² Statistics compiled by Foreign Trade Division, U.S. Census Bureau, available at <http://www.census.gov/foreign-trade/balance/c5081.html>.

¹²³ CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

¹²⁴ The other 12 are Algeria, Argentina, Canada, Chile, China, India, Indonesia, Pakistan, Russia, Thailand, Ukraine, and Venezuela. *2012 Special 301 Report*, available at <http://www.ustr.gov>. According to this report, the United States and Israel reached an Understanding on Intellectual Property Rights, “which concerns several longstanding issues regarding Israel’s regime for pharmaceutical products, on February 18, 2010. As part of the Understanding, Israel committed to strengthen its laws on protection of pharmaceutical test data and patent term extension, and to publish patent applications promptly after the expiration of a period of eighteen months from the time an application is filed. The Understanding provided, among other things, that Israel would submit legislation regarding these matters within 180 days of the conclusion of the Understanding. The United States agreed to move Israel to the Watch List once Israel submitted appropriate legislation to the Knesset, and to remove Israel from the Special 301 Watch List once the Government enacted legislation implemented Israel’s obligations fully.”

¹²⁵ For more information, see CRS Report RL32221, *Visa Waiver Program*, by Alison Siskin.

¹²⁶ Jonathan Broder, “AIPAC-Backed Israel Bill Stalls Over Visa Waiver Provision,” *cq.com*, April 29, 2013.

¹²⁷ *Ibid.*

possible Israeli participation in the visa waiver program that was introduced earlier in 2013 in both the House (H.R. 300) and the Senate (S. 266).

Appendix A. U.S.-Based Interest Groups Relating to Israel

Selected 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>

Israel Institute: <http://www.israelinstitute.org>

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

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

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

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

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

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

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

The Telos Group: <http://www.telosgroup.org>

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

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

Appendix B. Electoral Lists Represented in Knesset

Likud (Consolidation)/ Yisrael Beiteinu (Israel Is Our Home)	Likud: Israel's historical repository of right-of-center nationalist ideology; skeptical of territorial compromise; has also championed free-market reforms. <i>Leader: Binyamin Netanyahu</i> Yisrael Beiteinu: Pro-secular, right-of-center nationalist party with base of support among Russian speakers from former Soviet Union. <i>Leader: Avigdor Lieberman</i>
Yesh Atid (There Is a Future)	New pro-secular, centrist party focusing largely on socioeconomic issues, including conscription of Haredim and easing middle class burdens. <i>Leader: Yair Lapid</i>
Avoda (Labor)	Israel's historical repository of social democratic, left-of-center, pro-secular Zionist ideology; although associated with efforts to end Israel's responsibility for Palestinians in West Bank and Gaza, has campaigned this cycle largely on socioeconomic issues. <i>Leader: Shelly Yachimovich</i>
Ha'bayit Ha'Yehudi (The Jewish Home)	Right-of-center nationalist coalition with base of support among Ashkenazi Orthodox Jews; includes core constituencies supporting West Bank settlements and annexation. <i>Leader: Naftali Bennett</i>
Shas	Mizrahi ultra-orthodox (Haredi) party guided by Rabbi Ovadia Yosef; favors welfare and education funds in support of Haredi lifestyle; opposes conscription of Haredim and compromise with Palestinians on control over Jerusalem. <i>Leaders: Eli Yishai, Aryeh Deri, and Ariel Atias</i>
Ha'tnua (The Movement)	New pro-secular, centrist party focusing on ending Israel's responsibility for Palestinians in West Bank and Gaza, preferably via negotiation, and preserving international support for Israel. <i>Leader: Tzipi Livni</i>
United Torah Judaism (UTJ)	Ashkenazi Haredi coalition (Agudat Yisrael and Degel Ha'torah); favors welfare and education funds in support of Haredi lifestyle; opposes conscription of Haredim; generally seeks greater application of Jewish law. <i>Leaders: Yaakov Litzman and Moshe Gafni</i>
Hadash (Democratic Front for Peace and Equality)	Israeli Arab-Jewish socialist party; supports complete Israeli withdrawal to 1949-1967 armistice lines, creation of a Palestinian state, and religion/state separation. <i>Leader: Mohammed Barakeh</i>
Ra'am (United Arab List)/ Ta'al (Arab Movement for Renewal)	Israeli Arab coalition with base of support among Islamists and Bedouins; supports creation of Palestinian state along 1949-1967 armistice lines. <i>Leaders: Ibrahim Sarsur and Ahmad Tibi</i>
Balad (National Democratic Assembly/"Country")	Israeli Arab party; supports a two-state solution. <i>Leader: Jamal Zahalka</i>
Meretz	Left-of-center, pro-secular Zionist party that supports initiatives for social justice and for peace with the Palestinians. <i>Leader: Zahava Gal-On</i>
Kadima (Forward)	Centrist party offshoot from Likud espousing similar principles to Ha'tnua; top vote-getter in 2006 and 2009 elections. <i>Leader: Shaul Mofaz</i>

Author Contact Information

Jim Zanotti
Specialist in Middle Eastern Affairs
jzanotti@crs.loc.gov, 7-1441