

## Israel, U.S. begin discussions on renewal of foreign aid package

By [Shmuel Rosner](#), Haaretz Correspondent

Israeli officials have been discussing over the past few months how much financial aid Israel should request from the United States in the coming years.

The issue has come up for initial discussions with the Bush administration, and will be raised again at a meeting in Washington next month. Prime Minister Ehud Olmert is due to make the final decision on the matter.

The Bush administration this week asked Congress for \$2.4 billion in financial aid for Israeli security needs, the highest amount possible under America's current agreement with Israel.

The financial aid issue is on the table once again because the previous agreement expires this budgetary year, after being in effect for a decade.

As prime minister, Benjamin Netanyahu said in 1997 that Israel was interested in reducing, to the point of eliminating, the American funds allocated for civilian purposes in Israel. The agreement reached at the time gradually altered the structure of the assistance. At the time, Israel was receiving \$3 billion, of which \$1.2 billion was allocated for civilian purposes.

Under the new arrangement, it was agreed that \$120 million would be cut from the overall aid package every year, while the funds allocated for security purposes would increase by \$60 million. As the agreement comes to an end, the civilian aid no longer exists and the security aid amounts to \$2.4 billion.

Initial talks on a new financial aid package indicate that both the American and Israeli governments are interested in renewing the aid in an "orderly manner," as one person familiar with the issue put it, rather than returning to the system whereby Israel has to renew its aid request every year.

Israel needs to make a decision on whether to renew a request for civil assistance, and whether to ask for the current level of security assistance on a long-term basis or request more funding for the security challenges Israel faces.

Several officials told Haaretz that Israel has not made a final decision on these issues, although some said they had reservations about the return of civilian funding. One official noted that the outcome "will have strategic importance," not just on the economic level, but also regarding Israel-U.S. relations. The matter has recently been discussed at the defense and foreign ministries.

The Foreign Ministry convened a group of external experts, including former Israeli ambassadors to the U.S. Zalman Shoval and David Ivri, a few weeks ago to discuss some of the issues related to bilateral relations. The participants agreed that the Bush administration has been one of the friendliest to Israel and that there is an advantage to making agreements with U.S. President George W. Bush before he is replaced by someone else.

Israel also views the newly elected Congress as being friendly, and Israeli officials plan to request meetings with House and Senate leaders from both parties once Israel decides on the financial aid questions, in an effort to reach an agreement that is acceptable to Congress. Financial aid requests related to Israel that are submitted to Congress by the administration are generally approved without a problem, due in part to agreements reached ahead of time with congressional members.

Olmert will make the final decision on Israel's position after consulting with the heads of the defense and foreign ministries. The Defense Ministry, the primary recipient of security aid, has been asked to come up with estimates of Israeli security needs and how much funding they will require. An Israeli official said the Finance Ministry is also involved in some of the preliminary talks.

## How much American money should Israel ask for?

**The easy way is to ask for the same amount of money, to avoid rocking the boat by inviting debate over the need to support Israel. However, some in Israel are advocating that the government request increased financial aid.**

By [Shmuel Rosner](#)

### Discussion

Israel has started pondering a question that can't be avoided for long, and whose strategic significance is not in doubt: How much American money should Israel ask for?

To read all the facts, check out the [news story](#) I had in the paper this week.

Here is a synopsis:

The Bush administration this week asked Congress for \$2.4 billion in financial aid for Israeli security needs, the highest amount possible under America's current agreement with Israel. As prime minister, Benjamin Netanyahu said in 1997 that Israel was interested in reducing, to the point of eliminating, the American funds allocated for civilian purposes in Israel. The agreement reached at the time gradually altered the structure of the assistance.

At the time, Israel was receiving \$3 billion, of which \$1.2 billion was allocated for civilian purposes. Under the new arrangement, it was agreed that \$120 million would be cut from the overall aid package every year, while the funds allocated for security purposes would increase by \$60 million. As the agreement comes to an end, the civilian aid no longer exists.

Now the time has come to talk about the amount of aid Israel will receive in the future. The issue was raised in initial discussions with the Bush administration, and will be raised again at a meeting in

Washington next month. Prime Minister Ehud Olmert is due to make the final decision on the matter. Both the American and Israeli governments are interested in renewing the aid in an "orderly manner," as one person familiar with the issue put it.

### Considerations

In the story, I mention three choices Olmert faces: renewing a request for civil assistance, asking for the current level of security assistance on a long-term basis, and requesting more funding for the security challenges Israel faces.

But there's also a fourth possibility: To say thank you, and give up on assistance altogether. I don't think it will happen, for many reasons - chief among them Israel's established habit of receiving financial aid, its actual needs, and the human tendency not to reject something that is offered.

But make no mistake: The assistance Israel is getting is not just a gift. It is a deal. It's American support given in return for Israel's deference. And I know some American readers might consider it "Israeli chutzpa," but more than one Israeli official told me in the last couple of months that it is actually the Americans who are getting the better part of the deal here. They are paying a low price for Israel's cooperation, one of them told me.

Israel is the only regional power in this important part of the world that the Americans can always count on for help. And yes, they give us some aid - but what they get in return is the most stable friendship such money can buy.

### Decisions

So, how much money should Israel ask for? A year and a half ago, not long after I got here, I [wrote an op-ed](#) dealing with the Israeli request for financial help for the pullout from Gaza.

"Relinquishing is appropriate," I wrote back then. "Taking back the ridiculous request for a donation of \$2.1 billion, most of [it] earmarked for 'developing the Negev and the Galilee,' and announcing there is no need for it. Israel will develop the Negev and the Galilee on its own, when it decides that the time has come to do so - and the billions will be distributed by the Americans to those who really need them. Or they will keep them in their own pockets. It is their money."

Of course, this was before Hurricane Katrina hit the Gulf of Mexico and the city of New Orleans. Later in the year, as the cost of the recovery from this disaster became clearer, Israel withdrew its request, and never really tried to ask for it again. (It did test the water once or twice, but never in a very serious way. It was clear that the administration couldn't be receptive to such requests at the time.)

But this was a matter related to a one-time event, not to the annual allocations. Giving up on the annual support has an extra significance, and can't be taken lightly. I don't think Israel is ready to give up on it - and I don't think America would want it to stop.

Thus, the real question is not the continued support but rather the actual amount of money. Is it going to be more or less than it is today, or just as much? It will be money allocated for security purposes only. Short of disaster, natural or manmade, Israel will probably never renew its appeal for financial aid allocated for civilian purposes.

Requesting less money is an unattractive option, especially since the needs of the coming years seem like they could be quite debilitating. The easy way is to ask for the same amount of money, to avoid rocking the boat by inviting debate over the necessity of supporting Israel.

However, some in Israel are advocating that the government request increased financial aid. The Bush administration is friendly and supportive; both parties in Congress want to show their support. This might be a good time to strike a deal for the next 10 years.

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### **Israel: Background and Relations with the United States**

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**Trade and Investment.** Israel and the United States concluded a Free Trade Agreement 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 200% since  
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the FTA became effective. As noted above, qualified industrial zones in Jordan and Egypt are considered to be part of the U.S.-Israeli free trade area. The United States is Israel's main trading partner, while Israel ranks about 20th among U.S. trading partners. In 2005, the United States imported \$23.8 million in goods from Israel and exported \$27.1 million in goods to Israel. U.S. companies have made large investments in Israel. In July 2005, the U.S. microchip manufacturer Intel announced that it would invest \$4.6 billion in its Israeli branch; Israel provided a grant of 15% of an investment of up to \$3.5 billion or \$525 million to secure the deal. In May 2006, prominent U.S. investor Warren Buffet announced that he was buying 80% of Iscar, a major Israeli metalworks, for \$4 billion.

On July 26, the House passed H.R. 2730, the United States-Israel Energy Cooperation Act. It would authorize a grant program of \$20 million for each of fiscal years 2006 through 2012 to fund joint ventures between U.S. and Israeli businesses and academics for research, development, or commercialization of alternative energy, improved energy efficiency, or renewable energy sources. S. 1862, the Senate version of the bill, was referred to the Senate Foreign Relations Committee on October 7, 2005.

**Aid.** Israel has been the largest recipient of U.S. foreign aid since 1976. In 1998, Israeli, congressional, and Administration officials agreed to reduce U.S. \$1.2 billion in Economic Support Funds (ESF) to zero over ten years, while increasing Foreign Military Financing (FMF) from \$1.8 billion to \$2.4 billion. The process began in FY1999, with P.L. 105-277, October 21, 1998. Separately from the scheduled ESF cuts, Israeli has received an extra \$1.2 billion to fund implementation of the Wye agreement (part of the Israeli-Palestinian peace process) in FY2000, \$200 million in anti-terror assistance in FY2002, and \$1 billion in FMF in the supplemental appropriations bill for FY2003, P.L. 109-102, November 14, 2005, the Foreign Operations Appropriations Act, 2006, provided \$240 million in ESF, \$2.28 billion in FMF, and \$40 million for the settlement of migrants to Israel. H.R. 5522, the Foreign Operations Appropriations bill, FY2007, passed in the House on June 9, 2006, appropriates \$120 million in ESF, \$40 million for migration and refugee assistance, and \$2.34 billion in FMF (of which \$610 million may be spent for defense acquisitions in Israel), for Israel. The Senate has not yet passed a bill.

On July 14, 2006, during Israel's war against Hezbollah in Lebanon, the Pentagon notified Congress that it planned to sell up to \$210 million in jet fuel to Israel. On July 22, it was reported that the Administration is expediting the delivery of precision-guided bombs that had been ordered by Israel in 2005.

Congress has legislated other special provisions regarding aid to Israel. Since the 1980s, ESF and FMF have been provided as all grant cash transfers, not designated for particular projects, and have been transferred as a lump sum in the first month of the fiscal year, instead of in periodic increments. Israel is allowed to spend about one-quarter of the military aid for the procurement in Israel of defense articles and services, including research and development, rather than in the United States.

Finally, to help Israel out of its economic slump, P.L. 108-11, April 16, 2003, provided \$9 billion in loan guarantees over three years, use of which has since been

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See also CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy Sharp.

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Interview with Reston, cited in Glenn Kessler, "Bush Says U.S. Would Defend Israel Militarily," Washington Post, February 2, 2006.

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See <http://www.whitehouse.gov/news/releases/2006/05/20060523-9.html> for text of joint news conference.

extended to 2008 and may be extended further. As of September 2006, \$4.5 billion

of the program remains unappropriated.

**Security Cooperation.** Although Israel is frequently referred to as an ally of the United States, the two countries do not have a mutual defense agreement. Even though there is no treaty obligation, on February 1, 2006, President Bush stated that the United States would defend Israel militarily.<sup>25</sup> In May, the President told Prime Minister Olmert, "In the event of any attack on Israel, the United States will come to Israel's aid."<sup>26</sup>

On November 30, 1981, U.S. Secretary of Defense Caspar Weinberger and Israeli Minister of Defense Ariel Sharon signed a memorandum of understanding (MOU), establishing a framework for continued consultation and cooperation to enhance the national security of both countries. In November 1983, the two sides formed a Joint Political Military Group (JPMG) which meets twice a year, to implement most 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 2001, an annual interagency strategic dialogue, including representatives of diplomatic, defense, and intelligence establishments, was created to discuss long-term issues. In 2003, reportedly at the U.S. initiative due to bilateral tensions related to Israeli arms sales to China, the talks were suspended. (See *Military Sales*, below.) After the issue was resolved, the talks resumed at the State Department on November 28, 2005, and reportedly focused on Syria and democratization in the Arab world. On January 11, 2006, the JPMG convened in Tel Aviv also for the first time since 2003.

On May 6, 1986, Israel and the United States signed an agreement (the contents of which are secret) for Israeli participation in the Strategic Defense Initiative (SDI/"Star Wars"). Under SDI, Israel is developing the "Arrow" anti-ballistic missile with a total U.S. financial contribution so far of more than \$1 billion, increasing annually. The system became operational in 2000 in Israel and has been tested successfully, most recently on December 2, 2005, when it shot down a missile simulating an Iranian Shahab-3 that can be armed with nuclear warheads and reach Israel. The Defense Appropriations Act for FY2007, P.L. 109-289, September 29, 2006 appropriates \$17,894,000 for the Arrow program. Of this amount, \$53,000,000 is for producing missile components in the United States and missile components and missiles in Israel to meet Israel's defense requirements, and \$20,400,000 is for a joint feasibility study of the Short Range Ballistic Missile Defense (SRBMD) initiative, a missile interceptor designed to thwart missiles and rockets from 40 to 200 kilometers that is not expected to be operational before 2011.

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Ron Kampeas, "Israel-U.S. Dispute on Arms Sales to China Threatens to Snowball," *Jewish Telegraphic Agency*, June 8, 2005, citing a U.S.-China Economic and Security Review 2004 report.

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"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.

In 1988, under the terms of Sec. 517 of the Foreign Assistance Act of 1961, as amended, Israel was designated a "major non-NATO ally," affording it preferential treatment in bidding for U.S. defense contracts and access to expanded weapons systems at lower prices. Israel participates in NATO's Mediterranean Dialogue, its Istanbul Cooperative Initiative, and in Operation Active Endeavor monitoring the Mediterranean Sea to thwart terrorism. On October 16, 2006, Israel signed an Individual Cooperation Program (ICP) with NATO, providing for cooperation in such fields as counter-terrorism, intelligence sharing, disaster preparedness, etc. After the war in Lebanon ended in August 2006, the State department Office of Defense Trade Controls began to investigate whether Israel's use of U.S.-made cluster bombs violated agreements that restrict use of the weapons to military targets.

#### **Other Current Issues**

**Military Sales.** Israel accounts for about 10% of the world's defense exports, totaling \$3.5 billion in 2004. The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China. Israel reportedly is China's second major arms supplier, after Russia.<sup>27</sup> U.S. administrations believe that such sales are potentially harmful to the security of U.S. forces in Asia. In 2000, the United States persuaded Israel to cancel the sale of the Phalcon, an advanced, airborne early-warning system, to China. More recently, Israel's agreement to upgrade Harpy Killer unmanned aerial vehicles (UAVs) that it sold to China in 1999 angered the Department of Defense (DOD). China tested the weapon over the Taiwan Strait in 2004. DOD suspended technological cooperation with the Israel Air Force on the future F-35 Joint Strike

Fighter (JSF) aircraft as well as several other cooperative programs, held up shipments of some military equipment, and refused to communicate with the Israeli Defense Ministry Director General, whom Pentagon officials believed had misled them about the Harpy deal.

On August 17, 2005, the U.S. DOD and the Israeli Ministry of Defense issued a joint press statement reporting that they had signed an understanding "designed to remedy problems of the past that seriously affected the technology security relationship and to restore confidence in the technology security area. In the coming months additional steps will be taken to restore confidence fully."<sup>28</sup> According to the Israeli newspaper *Ha'aretz*, Israel will continue to voluntarily adhere to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, without actually being a party to it. On November 4, in Washington, Defense Minister Mofaz announced that Israel would again participate in the F-35 JSF project and that the crisis in relations was over. In March 2006, the new Defense Ministry Director General Jacob Toren said that an interagency process

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had begun approving marketing licenses for Israeli firms to sell selected dual-use items and services to China, primarily for the 2008 Olympic Games, on a case-by-case basis.

On October 21, 2005, it was reported that Israel would freeze or cancel a deal to upgrade 22 Venezuelan Air Force F-16 fighter jets, with some U.S. parts and technology. The Israeli government had requested U.S. permission to proceed, but it was not granted.