



# U.S. Foreign Aid to Israel

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## Summary

This report provides an overview of U.S. foreign assistance to Israel. It includes a review of past aid programs, data on annual assistance, and an analysis of current issues. For general information on Israel, see CRS Report RL33476, *Israel: Background and U.S. Relations*, by Jim Zanotti.

Israel is the largest cumulative recipient of U.S. foreign assistance since World War II. To date, the United States has provided Israel \$118 billion (current, or non-inflation-adjusted, dollars) in bilateral assistance. Almost all U.S. bilateral aid to Israel is in the form of military assistance, although in the past Israel also received significant economic assistance. Strong congressional support for Israel has resulted in Israel receiving benefits not available to any other countries; for example, Israel can use some U.S. military assistance both for research and development in the United States and for military purchases from Israeli manufacturers. In addition, U.S. assistance earmarked for Israel is generally delivered in the first 30 days of the fiscal year, while most other recipients normally receive aid in installments. In addition to receiving U.S. State Department-administered foreign assistance, Israel also receives funds from annual defense appropriations bills for rocket and missile defense programs. Israel pursues some of those programs jointly with the United States.

In 2007, the Bush Administration and the Israeli government agreed to a 10-year, \$30 billion military aid package spanning from Fiscal Year (FY) 2009 to Fiscal Year 2018. During his March 2013 visit to Israel, President Obama pledged that the United States would continue to provide Israel with multi-year commitments of military aid subject to the approval of Congress. P.L. 113-6, the Consolidated and Further Continuing Appropriations Act, 2013 (informally referred to as the full-year Continuing Resolution or CR) provides the full FY2013 Administration request for Israel of \$3.1 billion in FMF, of which Israel is permitted \$815.3 million in Off-Shore Procurement. The Act also provides for \$479.736 million in joint U.S.-Israeli missile defense programs, including \$211 million for Iron Dome, \$149.679 million for David's Sling, \$74.692 million for Arrow III, and \$44.365 million for Arrow II.

For FY2014, the Administration is requesting \$3.1 billion in FMF to Israel and \$15 million in Migration and Refugee Assistance. The Missile Defense Agency's FY2014 request for Israeli Cooperative Programs is \$95.782 million, including \$52.607 million for Arrow III, \$32.512 million for David's Sling, and \$10.663 million for Arrow II. The Department of Defense also is requesting \$220 million in FY2014 Procurement, Defense-wide funds for Iron Dome.

Recent legislation on U.S. foreign assistance to Israel proposed in the 113<sup>th</sup> Congress includes:

- H.R. 938 (S. 462), the United States-Israel Strategic Partnership Act of 2013—a bill that would, among other things, exempt Israel from regulations that require it to obtain U.S. permission to sell some American-controlled technology to third countries. The bill also would extend the authorization of U.S.-Israeli energy cooperation, among other things.
- H.R. 1130, the Iron Dome Support Act— a bill that would authorize the procurement of the Iron Dome anti-rocket defense system.

## Contents

Overview.....	1
Sequestration and U.S. Aid to Israel for FY2013 .....	2
Qualitative Military Edge (QME).....	3
U.S. Bilateral Military Aid to Israel.....	4
The 10-Year Military Aid Agreement.....	4
Foreign Military Financing (FMF) and Arms Sales .....	5
Early Transfer.....	5
FMF for in-Country Purchase .....	5
F-35 Joint Strike Fighter.....	6
Excess Defense Articles .....	7
Defense Budget Appropriations for U.S.-Israeli Missile Defense Programs.....	7
Multi-Tiered Missile and Rocket Defense.....	8
Iron Dome .....	8
David’s Sling.....	10
The Arrow and Arrow II.....	11
High Altitude Missile Defense System (Arrow III) .....	12
X-Band Radar.....	12
Emergency U.S. Stockpile in Israel .....	13
Aid Restrictions and Possible Violations.....	14
Israeli Arms Transfers to Third Parties.....	14
Other Ongoing Assistance and Cooperative Programs.....	16
Migration & Refugee Assistance.....	16
Loan Guarantees.....	17
Overview .....	17
Loan Guarantees for Economic Recovery.....	17
American Schools and Hospitals Abroad Program (ASHA).....	19
U.S.-Israeli Scientific & Business Cooperation .....	20
U.S.-Israeli Energy Cooperation .....	21

## Tables

Table 1. U.S. Contributions to the Arrow Program (Arrow, Arrow II, and Arrow III).....	11
Table 2. Defense Budget Appropriations for U.S.-Israeli Missile Defense: FY2006- FY2014 Request .....	13
Table 3. Migration and Refugee Assistance Funding Levels.....	16
Table 4. U.S. Loan Guarantees to Israel: FY2003-FY2013.....	19
Table 5. ASHA Program Grants from Israel Account, FY2000-FY2012 .....	20
Table B-1. Recent U.S. Bilateral Aid to Israel.....	26
Table B-2. U.S. Assistance to Israel, FY1949-FY1996 .....	27
Table B-3. U.S. Assistance to Israel, FY1949-FY1996 .....	29

## **Appendixes**

Appendix A. Historical Background.....	23
Appendix B. Bilateral Aid to Israel .....	26

## **Contacts**

Author Contact Information.....	30
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## Overview

For decades, the United States and Israel have maintained strong bilateral relations based on a number of factors, including robust domestic U.S. support for Israel and its security; shared strategic goals in the Middle East; a mutual commitment to democratic values; and historical ties dating from U.S. support for the creation of Israel in 1948. U.S. foreign aid has been a major component in cementing and reinforcing these ties. Although successive Administrations have disapproved of some Israeli policies, including settlement construction in the West Bank and—prior to Israel’s 2005 disengagement—the Gaza Strip, U.S. officials and many lawmakers have long considered Israel to be a vital partner in the region, and U.S. aid packages for Israel have reflected this calculation. Some observers, including opponents of U.S. aid to Israel, argue that U.S. assistance to Israel supports Israeli arms purchases without providing sufficient scrutiny of controversial Israeli military actions that—these observers assert—contravene various laws and international norms, particularly regarding treatment of Palestinians.

Though aid to Israel has detractors as well as supporters, overall U.S. public support for Israel remains strong. According to a March 2013 Washington Post-ABC poll that measured Americans’ sympathies toward the disputants in the Israeli-Palestinian conflict, 55% said their sympathies lie with the Israelis and 9% said their sympathies lie with the Palestinian Authority.<sup>1</sup> A poll conducted by Pew Research Center in October 2012 indicated that 41% of respondents said that the level of American support for Israel is about right, 25% said it is not supportive enough, and 22% said that the United States is too supportive.<sup>2</sup> Neither poll specifically examined public opinion regarding U.S. aid to Israel.

Economic conditions in the United States and Israel may affect future U.S. aid to Israel. With the prospect of prolonged fiscal austerity in the United States, overall American public support for foreign aid may diminish in the years ahead. There is some debate amongst supporters of continued U.S. aid to Israel as to how to advocate for assistance in a climate of budget reduction.<sup>3</sup> Although some Israel aid proponents argue that possible cuts to overall U.S. foreign operations appropriations should exempt Israel, other proponents suggest that Israel should bear its share of the burden. Many advocates of Israel aid often argue for the importance of overall U.S. foreign aid as a policy tool in order to strengthen their case for continued assistance to Israel.<sup>4</sup>

Although Israel faces its own budget deficit and possible defense spending cuts, its recent exploitation of domestic off-shore natural gas may reduce energy import costs and perhaps make Israel a net exporter of energy, possibly leading one day to a budget surplus. The prospect of greater financial independence could drive some Israeli leaders to call for a reduction in U.S. military aid. On the other hand, threats emanating from neighboring Arab countries, non-state

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<sup>1</sup> “March 2013 Post-ABC poll: Israel and the Palestinians,” *Washington Post*, March 26, 2013.

<sup>2</sup> “On Eve of Foreign Debate, Growing Pessimism about Arab Spring Aftermath,” *Pew Research Center*, October 18, 2012.

<sup>3</sup> See, “Looming Sequestration Cuts Cause Split Among Israel Aid Advocates,” *The Jewish Daily Forward*, March 13, 2013.

<sup>4</sup> For example, The American Israel Public Affairs Committee’s website (AIPAC) notes that “Robust foreign aid helps promote American values and interests. In addition to advancing vital national security interests, America’s foreign aid program promotes the values of the United States: democracy, pluralism, human rights and the rule of law. It also develops foreign markets and creates jobs at home.” See: [<http://www.aipac.org/en/issues/issue-display?issueid={EBD48E03-AA25-4812-9E80-BE27BBEE2F50}>]

actors, and Iran may lead Israel to conclude that increases in defense spending are necessary and therefore continued U.S. military support is vital. Though aid also serves as a political symbol of strong U.S.-Israeli ties, lawmakers in both countries may consider these security and fiscal realities in crafting future assistance agreements.

During his March 2013 visit to Israel, President Obama pledged that the United States would continue to provide Israel with multi-year commitments of military aid subject to the approval of Congress. The President stated that “As part of our long-term commitment to Israel's security, the prime minister and I agreed to begin discussions on extending military assistance to Israel...Our current agreement lasts through 2017, and we've directed our teams to start working on extending it for the years beyond.”

## Sequestration and U.S. Aid to Israel for FY2013

According to the Budget Control Act of 2011 (BCA), P.L. 112-25, sequestration<sup>5</sup> in FY2013 is applied to each non-exempt account, and to each program, project, and activity (PPA) within an appropriations account. According to the definition of PPA in the foreign operations provisions of the Consolidated Appropriations Act, 2012 (P.L. 112-74), sequestration applies to FMF at the country level, and there are no exemptions for Israel.<sup>6</sup> According to the Department of State's Office of Foreign Assistance Resources (also known as the “F Bureau”), sequestration for FMF will apparently be applied at the country level based on the CR level of funding through reductions at the nondefense discretionary level of 5%, as set forth in the *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013 March 1, 2013*. For purposes of the sequester, Defense Department appropriations for Iron Dome and joint U.S.-Israeli missile defense cooperation are considered non-exempt defense discretionary funding, and are therefore subject to a 7.8% reduction.

P.L. 113-6, the Consolidated and Further Continuing Appropriations Act, 2013 (informally referred to as the full-year Continuing Resolution or CR) provides the full FY2013 Administration request for Israel of \$3.1 billion in FMF, of which Israel is permitted \$815.3 million in Off-Shore Procurement. The Act also provides for \$479.736 million in joint U.S.-

<sup>5</sup> This is pursuant to Section 256(k) of the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177, also known as “Gramm-Rudman-Hollings” after its co-sponsors), as amended by the BCA. Gramm-Rudman-Hollings applied to foreign aid accounts, including those which funded U.S. aid to Israel. For FY1986 (immediately after the enactment of Gramm-Rudman-Hollings), all foreign aid accounts, including those that provided funding to Israel, were cut by 4.3%. Because Israel's aid is usually disbursed within 30 days of the enactment of the foreign operations appropriations bill, and because Gramm-Rudman-Hollings was passed in December 1985, Israel's government returned a total of \$128.6 million in FY1986 aid—\$51.6 million economic, \$77 million military—to the U.S. Treasury. See, *Survey of Jewish Affairs, 1987*, edited by William Frankel, Associated University Presses, 1988.

<sup>6</sup> Foreign assistance PPAs are defined by Sec. 7023 of P.L. 112-74, the Consolidated Appropriations Act, 2012. It states that for Foreign Operations, “program, project, and activity” shall be defined at the appropriations Act account level and shall include all appropriations and authorizations Acts funding directives, ceilings, and limitations, with the exception that for the following accounts: “Economic Support Fund” and “Foreign Military Financing Program”, “program, project, and activity” shall also be considered to include country, regional, and central program level funding within each such account. For the development assistance accounts of the United States Agency for International Development, “program, project, and activity” shall also be considered to include central, country, regional, and program level funding, either as: (1) justified to the Congress; or (2) allocated by the executive branch in accordance with a report, to be provided to the Committees on Appropriations within 30 days of the enactment of this Act, as required by section 653(a) of the Foreign Assistance Act of 1961.

Israeli missile defense programs, including \$211 million for Iron Dome, \$149.679 million for David's Sling, \$74.692 million for Arrow III, and \$44.365 million for Arrow II.

Based on the specific earmark for aid to Israel in P.L. 113-6, FMF to Israel may be sequestered up to an estimated \$155 million, excluding the application of an across-the-board rescission. Likewise, rocket and missile defense funding to Israel may be sequestered up to an estimated \$37.41 million, excluding the application of a rescission. **CRS calculations at this point are estimates only.** The final FY2013 dollar amount of U.S. foreign assistance to Israel remains unclear since the U.S. State Department or the U.S. Defense Department could reprogram additional amounts of aid to Israel in order to compensate for lost funding as a result of sequestration. One potential obstacle to such compensation would be the necessity of finding budgetary offsets from other foreign aid accounts that, if enacted, could potentially reduce aid for other recipients.

## Qualitative Military Edge (QME)

Almost all current U.S. aid to Israel is in the form of military assistance.<sup>7</sup> U.S. military aid has helped transform Israel's armed forces into one of the most technologically sophisticated militaries in the world. U.S. military aid for Israel has been designed to maintain Israel's "qualitative military edge" (QME) over neighboring militaries. The rationale for the QME is that Israel must rely on better equipment and training to compensate being much smaller geographically and in terms of population, than its potential adversaries. 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, which ranks as one of the top 10 suppliers of arms worldwide.<sup>8</sup>

Successive administrations have routinely affirmed the U.S. commitment to strengthening Israel's QME. For years, no official or public U.S. definition of QME existed.<sup>9</sup> In 2008, Congress passed legislation (P.L. 110-429, the Naval Vessel Transfer Act of 2008) that 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 damage 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.

Furthermore, Section 201 of the act requires the President to carry out an "empirical and qualitative assessment on an ongoing basis of the extent to which Israel possesses a qualitative

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<sup>7</sup> For many years, U.S. economic aid helped subsidize a lackluster Israeli economy, but since the rapid expansion of Israel's high-tech sector in the 1990s (sparked partially by U.S.-Israeli scientific cooperation), Israel has been considered a fully industrialized nation. Consequently, Israel and the United States agreed to gradually phase out economic grant aid to Israel. In FY2008, Israel stopped receiving bilateral Economic Support Fund (ESF) grants. It had been a large-scale recipient of grant ESF assistance since 1971.

<sup>8</sup> See, CRS Report R42678, *Conventional Arms Transfers to Developing Nations, 2004-2011*, by Richard F. Grimmett and Paul K. Kerr.

<sup>9</sup> William Wunderle and Andre Briere, *U.S. Foreign Policy and Israel's Qualitative Military Edge: The Need for a Common Vision*, Washington Institute for Near East Policy, Policy Focus #80, January 2008.

military edge over military threats to Israel.” The Administration is required to release the QME report on a quadrennial basis (The initial required report was submitted on October 6, 2009). The 2008 law also further amends Section 36 of the Arms Export Control Act to require certifications for proposed arms sales “to any country in the Middle East other than Israel” to include “a determination that the sale or export of the defense articles or defense services will not adversely affect Israel’s qualitative military edge over military threats to Israel.”

In 2012, Congress passed the United States-Israel Enhanced Security Cooperation Act (P.L. 112-150) that, among other things, reiterated that it is the policy of the United States to “to help the Government of Israel preserve its qualitative military edge amid rapid and uncertain regional political transformation.” It also included a reporting requirement on Israel’s QME that if submitted within one year of the deadline for the next quadrennial report on QME (as noted above) could satisfy both legally mandated reporting requirements.<sup>10</sup>

Over the years, Israeli officials have expressed concern over U.S. sales of sophisticated weaponry, particularly aircraft, airborne radar systems, and precision-guided munitions, to Arab Gulf countries, notably Saudi Arabia. Arab critics of U.S. military aid to Israel routinely charge that Israeli officials exaggerate the threat posed by Israel’s neighbors in order to justify calls for increased U.S. support. As the United States is one of the principal suppliers of defense equipment and training to both Israel and Saudi Arabia, U.S. policymakers and defense officials carefully navigate commitments to the two countries, including upholding the U.S. commitment to maintaining Israel’s QME.

Israel and the United States formally review QME policy in working groups that convene periodically, such as the Defense Policy Advisory Group (DPAG) and the U.S.-Israeli Joint Political Military Group (JPMG). These formal exchanges provide both sides an opportunity to discuss potential QME concerns and/or future cooperation.

## U.S. Bilateral Military Aid to Israel

### The 10-Year Military Aid Agreement

In 2007, the Bush Administration and the Israeli government agreed to a 10-year, \$30 billion military aid package. Under the terms of the agreement, Israel will still be able to spend up to 26.3% of U.S. assistance on Israeli-manufactured equipment (known as Off-Shore Procurement or OSP). The agreement states that “Both sides acknowledge that these funding levels assume continuation of adequate levels for U.S. foreign assistance overall, and are subject to the appropriation and availability of funds for these purposes.”<sup>11</sup> According to former Under Secretary of State for Political Affairs Nicholas Burns, who signed the agreement, entitled the Memorandum of Understanding on U.S. Military Assistance:

We consider this 30 billion dollars in assistance to Israel to be an investment in peace - in long-term peace. Peace will not be made without strength. Peace will not be made without

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<sup>10</sup> See, S.Rept. 112-179 - United States-Israel Enhanced Security Cooperation Act Of 2012, <http://www.congress.gov/cgi-lis/cpquery/R?cp112:FLD010:@1%28sr179%29>

<sup>11</sup> United States-Israel Memorandum of Understanding, Signed by then U.S. Under Secretary of State R. Nicholas Burns and Israeli Ministry of Foreign Affairs Director General Aaron Abramovich, August 16, 2007.

Israel being strong in the future. Of course, our objective as a country and our specific objective as a government is to contribute to that peace, a peace between Israel and the Palestinian people, the creation of an independent Palestinian state willing to live side by side in peace with Israel, and a general peace in the region that has eluded the Israeli people for 59 years but which is, we hope, the destiny of the Israeli people as well as the Arab peoples of the region. Our policy in this entire region is dedicated to that final objective.<sup>12</sup>

## Foreign Military Financing (FMF) and Arms Sales

Israel is the largest recipient of U.S. Foreign Military Financing. For FY2014, the President's request for Israel would encompass approximately 52% of total FMF funding worldwide. Annual FMF grants to Israel represent 20% to 25% of the overall Israeli defense budget.<sup>13</sup> Like some other recipients of U.S. aid, Israel benefits from "cash flow financing." Israel is allowed to set aside FMF funds for current year payments only, rather than the full amount needed to meet the entire cost of multi-year purchases. Cash flow financing allows Israel to negotiate major arms purchases with U.S. defense suppliers.<sup>14</sup>

### Early Transfer

For years, Congress has mandated that Israel receive its FMF aid in a lump sum during the first month of the fiscal year. The FY2012 Consolidated Appropriations Act (P.L. 112-74) states that "the funds appropriated under this heading for assistance for Israel shall be disbursed within 30 days of enactment of this Act." Once disbursed, Israel's military aid is transferred to an interest bearing account with the U.S. Federal Reserve Bank. Israel has used interest collected on its military aid to pay down its bilateral debt (non-guaranteed) to U.S. government agencies, which, according to the U.S. Treasury Department, stood at \$455 million as of January 2013.<sup>15</sup> Israel cannot use accrued interest for defense procurement inside Israel.

### FMF for in-Country Purchase

Israel's ability to use a significant portion of its annual military aid for procurement in Israel is a unique aspect of its assistance package; no other recipient of U.S. military assistance has been granted this benefit.<sup>16</sup> Since FY1988, the FMF procurement earmark for purchases within Israel

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<sup>12</sup> R. Nicholas Burns, Under Secretary of State for Political Affairs, "Remarks and Press Availability at Signing Ceremony for Memorandum of Understanding on U.S. Military Assistance," Released by the American Embassy Tel Aviv—Press Section, August 16, 2007.

<sup>13</sup> The Israeli Ministry of Defense provides funding figures for its domestic defense budget but excludes some procurement spending and spending on civil defense. The estimate referenced above is based on figures published by *Jane's Sentinel Security Assessment - Eastern Mediterranean*, Defence Budget, Israel, November 23, 2012.

<sup>14</sup> Cash flow financing is defined in section 25(d) of the Arms Export Control Act and section 503(a)(3) of the Foreign Assistance Act.

<sup>15</sup> CRS correspondence with U.S. Treasury Department.

<sup>16</sup> Israel was first granted FMF for use in Israel in 1977, when it asked for and received permission to use \$107 million in FY1977 FMF funds to develop the Merkava tank (prototype completed in 1975 and added to Israeli arsenal in 1979). Several years later, Israel asked for a similar waiver to develop the Lavi ground-attack aircraft, and Congress responded with legislation allowing Israel to spend \$250 million of FMF in Israel to develop the Lavi. It was estimated that the United States provided between \$1.3 and \$1.8 billion in Lavi development costs before the United States and Israel agreed to terminate the project in 1988. In order to defray the cancellation costs of the Lavi program, the United States agreed to raise the FMF earmark for procurement in Israel to \$400 million. For background on the cancellation of the (continued...)

has been incorporated into annual foreign assistance legislation. Currently, approximately 26.3% of Israel's FMF funds may be used for domestic defense purchases (\$815.3 million in FY2013). Since the earmark is linked to a percentage and not a specific dollar amount, the amount set aside for defense purchases in Israel also has increased as U.S. military aid to Israel has increased.

Successive Administrations and many lawmakers routinely assert that a strong domestic Israeli defense industry is crucial to maintaining Israel's technological edge over its neighbors. The proceeds to Israeli defense firms<sup>17</sup> from purchases with U.S. funds have allowed the Israeli defense industry to achieve economies of scale and produce highly sophisticated equipment for niche markets. Defense experts note that high annual amounts of U.S. military assistance incentivize private and semi-private Israeli defense companies to place a greater business emphasis on exports, since a large portion of Israeli government weapons procurement is spent on American equipment.

The Israeli defense industry is also a major exporter, including to the U.S. military. According to Beth McCormick, former acting director of the U.S. Defense Technology Security Administration, Israeli manufacturers must export as much as 75% of their output to stay profitable—a far higher share than U.S. military contractors.<sup>18</sup> Israel is among the world's leading arms exporters. Between 2004 and 2011, Israel was the eighth-largest arms exporter in the world with sales (value of agreements, not deliveries) worth a total of \$12.9 billion.<sup>19</sup> Some supporters of continued U.S. assistance to Israel suggest that Israel is now exporting more equipment to the U.S. military than in the past and that many Israeli-origin systems are now in use by U.S. forces.<sup>20</sup>

Some weapons systems that were originally designed in Israel using Off-Shore Procurement (OSP) FMF funds are now being manufactured in the United States. Those who assert that U.S.-Israeli military ties are and should remain strong cite this as evidence that OSP is mutually beneficial. According to one report, Israeli defense planners “point to a considerable increase in funding earmarked for local development of sensors, munitions and unmanned systems that can later be transitioned to FMF-funded U.S.-based production.”<sup>21</sup>

## F-35 Joint Strike Fighter

After years of negotiations, the United States and Israel announced in 2010 that Israel will purchase 19 F-35s at a cost of \$2.75 billion. The F-35 is a fifth-generation stealth aircraft considered to be the most technologically advanced fighter jet ever made. Israel will pay for the

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(...continued)

Lavi fighter, see Dan Raviv and Yossi Melman, *Friends in Deed: Inside the U.S.-Israeli Alliance*, New York: Hyperion, 1994, pp. 263-268.

<sup>17</sup> The primary state-owned and private Israeli defense contractors are Israel Aerospace Industries Ltd (IAI), Elbit Systems Ltd, Rafael Ltd (Rafael Advanced Defence Systems Ltd), Elisra Group, and Israel Military Industries (IMI).

<sup>18</sup> “Pentagon says Israel Improves Arms-Export Controls,” *Reuters*, September 5, 2007.

<sup>19</sup> CRS Report R42678, *Conventional Arms Transfers to Developing Nations, 2004-2011*, by Richard F. Grimmer and Paul K. Kerr.

<sup>20</sup> See Table 1 “Select Israeli-Origin Systems in Recent Use by the U.S. Military,” page 18, in Michael Eisenstadt and David Pollock, *Asset Test: How the United States Benefits from its Alliance with Israel*, Washington Institute for Near East Policy, Strategic Report 7, September 2012.

<sup>21</sup> “Israel Leverages Local R&D for Overseas Buys,” *Defense News*, November 12, 2012.

F-35s entirely using FMF grants.<sup>22</sup> Israel may purchase additional squadrons of F-35s in the future and has received U.S. approval to purchase up to 75 aircraft—potentially leading to as much as \$15.2 billion in purchases if all options are exercised.<sup>23</sup> As part of the F-35 deal, the United States agreed to make reciprocal purchases of equipment from Israel’s defense industries estimated at \$4 billion.<sup>24</sup> Prior to the agreement, the two sides had negotiated over the level of Israeli customization of the F-35. In the summer of 2012, the Department of Defense and Lockheed Martin finalized a \$450 million agreement to modify the baseline F-35 model to accommodate electronic warfare and munitions systems for Israel’s future F-35 squadrons. Due to delays in the overall F-35 program, the expected delivery of the aircraft to Israel has been pushed back from 2015 to sometime between 2016 and 2017.

## Excess Defense Articles

The Excess Defense Articles (EDA) program provides one means by which the United States can advance foreign policy objectives—assisting friendly and allied nations through provision of equipment in excess of the requirements of its own defense forces. The Defense Security Cooperation Agency (DSCA) manages the EDA program, which enables the U.S. to reduce its inventory of outdated equipment by providing friendly countries with necessary supplies at either reduced rates or no charge.<sup>25</sup>

According to DSCA, Israel continues to be the largest single recipient of EDA materiel.<sup>26</sup> In January 1987, the United States designated Israel as a “major non-NATO ally,” which qualifies Israel to receive EDA under Section 516 of the Foreign Assistance Act and Section 23(a) of the Arms Export Control Act. From 2001 to the present, Israel has been authorized to receive over \$330 million in EDA.

## Defense Budget Appropriations for U.S.-Israeli Missile Defense Programs

Congress and successive Administrations have demonstrated strong support for joint U.S.-Israeli missile defense projects designed to thwart a diverse range of threats, from short-range missiles and rockets fired by non-state actors, such as Hamas and Hezbollah, to mid- and longer-range ballistic missiles in Syria’s and Iran’s arsenals. Congress provides regular U.S. funding for U.S.-Israeli missile defense cooperation in defense authorization and appropriations bills. Such efforts are not formally considered to constitute direct bilateral aid, but many U.S. and Israeli officials and observers consider them to be a vital component of the bilateral strategic relationship. Israel

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<sup>22</sup> In 2010, during intense Obama Administration negotiations with the Israeli government over Israeli settlement activity in the West Bank, the Administration had reportedly offered Israel, among other things, 20 additional F-35s in exchange for a 90-day extension of a partial moratorium on settlement construction. Israel did not accept the offer.

<sup>23</sup> DSCA’s notification to Congress of the F-35 sale is available at [http://www.dscamilitary.com/PressReleases/36-b/2008/Israel\\_08-83.pdf](http://www.dscamilitary.com/PressReleases/36-b/2008/Israel_08-83.pdf).

<sup>24</sup> “Israel set to build wings for some 800 F-35s,” *Reuters*, August 30, 2010.

<sup>25</sup> To access DSCA’s Excess Defense Articles database, see <http://www.dscamilitary.com/programs/eda/search.asp>.

<sup>26</sup> DSCA Israel Country Information Paper.

and the United States each financially contribute to several weapons systems and co-develop and share technology from some of these projects.

## Multi-Tiered Missile and Rocket Defense

In addition to U.S.-supplied Hawk and Patriot missile batteries, U.S.-Israeli missile defense cooperation has evolved in the past several years to include the co-development of several systems. Israel also has developed its own missile defense programs without U.S. collaboration.

### Iron Dome

#### *Overview*

In order to counter rockets fired from either the Gaza Strip or Lebanon, Israel has developed a short-range anti-rocket system, dubbed “Iron Dome.”<sup>27</sup> Iron Dome is designed to intercept very short-range rocket threats between two<sup>28</sup> and forty-five miles in all weather, and recent upgrades may potentially give future batteries greater capability to intercept longer-range rockets. Iron Dome’s selective targeting system and radar are designed to fire interceptors only at incoming projectiles that pose threats to population centers— it is not configured to fire on rockets headed toward uninhabited areas. It was developed by Rafael Advanced Defense Systems. To date, the United States has provided a total of \$486 million to Israel for Iron Dome batteries, interceptors, and general maintenance. In response to Palestinian rocket attacks from Gaza, Israel deployed Iron Dome batteries for the first time in April 2011. During Israel’s conflict with Hamas in November 2012, Israeli officials claim that Iron Dome intercepted 85%<sup>29</sup> of over 400 rockets fired from the Gaza Strip that were selectively targeted based on the criteria discussed above

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<sup>27</sup> Iron Dome’s initial development was somewhat contentious both within Israel and between U.S. and Israeli officials. Within Israel’s defense establishment, some experts argued that such a system would prove too costly a system to implement and that less expensive alternatives were available from foreign suppliers. Israel tested several alternatives, including C-RAM (a variation of the Vulcan Phalanx Gatling cannon made by Raytheon) and the Nautilus/Skyguard chemical laser system co-developed by the United States and Israel (made by Northrop Grumman). Israel rejected both of these alternatives; perhaps due to its desire to indigenously produce its own system and the perceived shortcomings of C-RAM and Nautilus. Israeli defense experts reportedly believed that while C-RAM could be somewhat effective in protecting a community like Sderot, it covered a relatively small area and was less effective against lower-flying rockets. Israeli perceptions of the Nautilus were that the technology was still in its infancy, that it required a lengthy re-charge time, and that it was less portable and defensible. According to one account, in late 2009 a team of U.S. missile defense experts that traveled to Israel to assess Iron Dome “declared Iron Dome a success, and in many respects, superior to Phalanx. Tests showed it was hitting 80% of the targets, up from the low teens in the earlier U.S. assessment.” See, “In Depth: Israel’s Iron Dome Defense Battled to Get Off Ground,” *Wall Street Journal*, November 27, 2012.

<sup>28</sup> According to a former director of the Israel Missile Defense Organization, during the November 2012 conflict the system had a 71% rate of successful interception over an area that includes the town of Sderot (estimated population: 24,000) located only two kilometers from Gaza. Because the minimum range of rocket fire against which Iron Dome supposedly defends is four kilometers, it is unclear how the system provides defense for Sderot. One possibility is that the rockets targeting Sderot are fired from some distance behind the Israel-Gaza border. Response by Uzi Rubin to CRS question at the Washington Institute for Near East Policy, Washington, DC, December 18, 2012.

<sup>29</sup> This success rate is based on Israeli military estimates. It is unknown if the United States or another third-party has independently verified Israeli claims regarding Iron Dome’s November 2012 performance. In previous rounds of rocket attacks against Israel, Iron Dome’s reported success rate had been somewhat lower (70%-80%). In 2011, the Israeli military discovered that a radar failure had caused a higher percentage of misses and they have since reportedly resolved the malfunction.

(Gaza-based militants fired a total of 1,500 rockets at Israel during the conflict). However, some observers argue that additional evidence would be needed to conclusively verify Israeli reports of Iron Dome's success rate.<sup>30</sup> Uzi Rubin, the former director of the Israel Missile Defense Organization, has responded to critics of Iron Dome by asserting that "the success rate matches the defense establishment statements."<sup>31</sup> In order to expand Iron Dome's population coverage, Israel claims that it requires between ten to fifteen Iron Dome batteries in operation at all times (Iron Dome is portable and can be transported by truck to areas in need of coverage).

### ***U.S. Assistance and Congressional Action***

In March 2010, the Obama Administration announced that it would support \$205 million in defense assistance to Israel for the purchase of Iron Dome batteries. Section 229 of P.L. 111-383 (Ike Skelton National Defense Authorization Act for Fiscal Year 2011) authorized the Secretary of Defense to provide that sum to the government of Israel for the Iron Dome system.<sup>32</sup> Section 8072 of P.L. 112-10 (Department of Defense and Full-Year Continuing Appropriations Act, 2011) appropriated the \$205 million in funding for Iron Dome, along with additional funding to support the other components of U.S. missile defense cooperation with Israel.

For FY2012, the Administration did not request specific funding for Iron Dome, and Congress did not appropriate funds for it. However, in May 2012 the Obama Administration reprogrammed \$70 million in FY 2011 Department of Defense general missile defense research and development funds for Iron Dome. In its explanation to Congress, the Administration noted that the \$70 million would be used to "expand Israel's inventory of radars and interceptors" for Iron Dome. P.L. 112-150, the United States-Israel Enhanced Security Cooperation Act of 2012, included, among other provisions, a sense of Congress that the United States government should "Provide the Government of Israel assistance specifically for the production and procurement of the Iron Dome defense system for purposes of intercepting short-range missiles, rockets, and projectiles launched against Israel."

For FY2013, Congress did authorize funding for Iron Dome in P.L. 112-239, the National Defense Authorization Act for Fiscal Year 2013. Section 222 authorizes \$211 million for Iron Dome. Section 1278 of the same Act, among other things, "recognizes the exceptional success of the Iron Dome short-range rocket defense system in defending the population of Israel; and urges the Department of Defense and the Department of State to explore with their Israeli counterparts and alert Congress of any requirements the Israeli Defense Force may have for additional Iron Dome batteries, interceptors, or other equipment depleted during the recent conflict with Hamas-controlled Gaza."

<sup>30</sup> One expert, Richard M. Lloyd, claims that Iron Dome succeeded 30 percent to 40 percent of the time in detonating enemy warheads. See, "Debate Emerges Over Effectiveness Of Israel's Antimissile System," *New York Times*, March 21, 2013. Other articles that address Iron Dome's accuracy include: "How Many Rockets has Iron Dome really Intercepted?" *Ha'aretz*, March 9, 2013; Subrata Ghoshroy, "Iron Dome: Behind the Hoopla, a Familiar Story of Missile-Defense Hype," *Bulletin of the Atomic Scientists* (Web Edition), December 13, 2012; and Paul Koring, "Success of Israeli's Iron Dome Defensive Shield Questioned," *Globe and Mail*, November 29, 2012.

<sup>31</sup> "Where have all the Gaza Rockets Gone?" *Ha'aretz*, March 19, 2013.

<sup>32</sup> In the 111<sup>th</sup> Congress, the House passed H.R. 5327, United States-Israel Rocket and Missile Defense Cooperation and Support Act, which authorized the Administration "to provide assistance to the Government of Israel for the procurement, maintenance, and sustainment of the Iron Dome Short Range Artillery Rocket Defense System for purposes of intercepting short-range rockets, missiles, and mortars launched against Israel." A Senate version, S. 3451, was referred to the Senate Foreign Relations Committee but was not reported out during the 111<sup>th</sup> Congress.

P.L. 113-6, the Consolidated and Further Continuing Appropriations Act, 2013 (informally referred to as the full-year Continuing Resolution or CR) provides \$211 million for Iron Dome, matching an earlier Senate-proposed appropriation. In the 112<sup>th</sup> Congress, the House-passed Department of Defense Appropriation bill for FY2013 (H.R. 5856) would have provided \$680 million for Iron Dome from FY2013 through FY2015. As noted above, the Senate version would have provided \$211 million for FY2013 only, though appropriators noted in a report accompanying the bill that the “Secretary of Defense is committed to requesting the remainder of the required amount [\$680 million] in fiscal years 2014 and 2015 based on an annual assessment of Israeli security requirements against an evolving threat.”

### *Technology Sharing*

Since Iron Dome was developed by Israel alone, Israel retains proprietary technology rights to it. In hopes of recouping the high initial cost of Iron Dome’s and continued costs associated with the production of new interceptors, Israeli officials have expressed interest in exporting the system to customers in Asia (such as South Korea, Singapore, and India) and Brazil. Meanwhile, the Administration and some lawmakers have sought to obtain data rights to Iron Dome technology and to explore potential co-production opportunities with Israel. According to Pentagon spokeswoman Army Lieutenant Colonel Elizabeth Robbins, the U.S. Defense Department sees “possible opportunities” for Iron Dome co-production and “What data rights will be acquired by the U.S. is a matter of continued discussion.”<sup>33</sup> In March 2013, Brigadier-General Shachar Shohat, the commander of the IDF, endorsed possible U.S.-Israeli co-production of Iron Dome’s Tamir interceptors when he remarked that “Opening joint manufacturing lines would increase production rates, which is of course in my interest as the professional user.”<sup>34</sup>

### *David’s Sling*

In August 2008, Israel and the United States officially signed a “project agreement” to co-develop the David’s Sling system. David’s Sling (aka Magic Wand) is a short/medium-range system designed to counter long-range rockets and slower-flying cruise missiles fired at ranges from 40 km to 300 km, such as those possessed by Hezbollah in Lebanon, as well as by Syria. David’s Sling is designed to intercept missiles that fall below the optimal capability for Israel’s Arrow ballistic missile interceptor. It is being developed jointly by Israel’s Rafael Advanced Defense Systems and U.S.-based Raytheon. David’s Sling uses Raytheon’s Stunner missile for interception, and each launcher can hold up to 16 missiles. In November 2012, Israel announced the first successful test of the Stunner interceptor. The system is expected to be operational by 2014, with the first deployments expected sometime in 2013. According to Lt. Gen. Henry Obering, then-director of the U.S. Missile Defense Agency, “We wanted a truly co-managed program because the United States will be very interested in this for our own purposes.... The agreement we just signed allows us to work through specific cost-sharing arrangements and other program parameters.”<sup>35</sup> Once deployed, David’s Sling could replace U.S.-supplied Hawk surface-to-air missiles that have been used by Israel for nearly half a century.

<sup>33</sup> “Israel: U.S. Co-Production of Rocket Shield Not Option ‘Right Now’,” *Reuters*, November 29, 2012.

<sup>34</sup> “Israeli General welcomes Obama with call to Share Iron Dome Production,” *Reuters*, March 20, 2013.

<sup>35</sup> “U.S.-Israel to Develop David’s Sling Missile Defense,” *DefenseNews.com*, August 7, 2008.

## The Arrow and Arrow II

Since 1988, Israel and the United States have been jointly developing the Arrow Anti-Missile System. Arrow is designed to counter short-range ballistic missiles. The United States has funded just under half of the annual costs of the development of the Arrow Weapon System, with Israel supplying the remainder. The Arrow II program, a joint effort of Boeing and Israel Aerospace Industries (IAI), is designed to defeat longer-range ballistic missiles. One Arrow II battery can protect major areas of Israeli territory.

Shortly after the start of the Strategic Defense Initiative (SDI) in 1985, the Reagan Administration sought allied political support through various cooperative technology agreements on ballistic missile defense (BMD). A memorandum of understanding was signed with Israel on May 6, 1986 to jointly develop an indigenous Israeli capability to defend against ballistic missiles.<sup>36</sup> Israeli interest in BMD was strengthened by the missile war between Iran and Iraq in the later 1980s, and the experience of being attacked by Scud missiles from Iraq during Operation Desert Storm in 1991.

**Table 1. U.S. Contributions to the Arrow Program (Arrow, Arrow II, and Arrow III)**

\$s in millions

Fiscal Year	Total	Fiscal Year	Total
1990	52.000	2002	131.700
1991	42.000	2003	135.749
1992	54.400	2004	144.803
1993	57.776	2005	155.290
1994	56.424	2006	122.866
1995	47.400	2007	117.494
1996	59.352	2008	118.572
1997	35.000	2009	104.342
1998	98.874	2010	122.342
1999	46.924	2011	125.393
2000	81.650	2012	125.175
2001	95.214	<b>Total</b>	<b>2,130.74</b>

**Source:** U.S. Missile Defense Agency

Under the 1986 agreement allowing Israel to participate in SDI, the United States and Israel have co-developed different versions of the Arrow anti-ballistic missile. The total U.S. financial contribution exceeds \$2.1 billion. The system became operational in 2000 in Israel and has been tested successfully. DOD's Missile Defense Agency has agreed to extend the U.S.-Israel Arrow System Improvement Program (ASIP) and post-ASIP through 2013. Since 2001, Israel and the

<sup>36</sup> Subsequently, a number of additional agreements were signed, including, for example: an April 1989 Memorandum of Agreement (MOA) to develop an Israeli computer facility as part of the Arrow BMD program, a June 1991 agreement to develop a second generation Arrow BMD capability, and a September 2008 agreement to develop a short-range BMD system to defend against very short-range missiles and rockets.

United States have conducted a joint biennial exercise, called Juniper Cobra, to work on integrating their weapons, radars, and other systems.

### **High Altitude Missile Defense System (Arrow III)**

Fearing a potential nuclear threat from Iran, Israel has sought a missile interceptor that operates at a higher altitude and greater range than the Arrow. In October 2007, the United States and Israel agreed to establish a committee to evaluate Israel's proposed "Arrow III," an upper-tier system designed to intercept medium-range ballistic missiles. The Arrow III will be a more advanced version—in terms of speed, range and altitude—of the current Arrow II interceptor. According to various industry sources, Arrow III interceptors also will be smaller and cheaper than their predecessors. In the spring and summer of 2008, Israel decided to begin production of the Arrow III and the United States agreed to co-fund its development despite an initial proposal by Lockheed Martin and DOD urging Israel to purchase the Terminal High-Altitude Area Defense (THAAD) missile defense system instead. The Arrow III, made (like the Arrow II) by Israel Aerospace Industries (IAI) and Boeing, is expected to be deployed by 2014 or 2015. In July 2010, the United States and Israel signed a bilateral agreement to extend their cooperation in developing and producing the Arrow III. In February 2013, Israel successfully test-launched an Arrow III interceptor beyond the earth's atmosphere.

### **X-Band Radar**

One of the most significant gestures of U.S. support for Israel's missile defense architecture has been the deployment of the AN/TPY-2 X-Band radar system (built by Raytheon ) to Israel in late 2008. Not only is the X-Band system far more capable of detecting incoming missiles than Israel's existing radar,<sup>37</sup> but the United States also has linked the X-Band to its global network of satellites in the U.S. Defense Support Program (DSP) and to the global U.S. Ballistic Missile Defense System (BMDS). The DSP is the principal component of the U.S. Satellite Early Warning System to detect missile launches.<sup>38</sup> According to various media reports, the X-Band system is now operational. It will remain U.S.-owned and is operated by U.S. troops and defense contractors—the first indefinite U.S. military presence to be established on Israeli soil. Reportedly, the system has been deployed to a classified location in the southern Negev desert.<sup>39</sup>

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<sup>37</sup> The X-Band system can detect incoming missiles from 500-600 miles. Currently, Israel's early warning system is only able to detect missiles from 100 miles out.

<sup>38</sup> Israel was first given access to DSP in 2001 but only on a per-request, rather than constant, basis.

<sup>39</sup> P.L. 110-417, the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, authorized up to \$89 million for the activation and deployment of the AN/TPY-2 forward-based X-band radar to a "classified location." In report language (H.Rept. 110-652) accompanying H.R. 5658, the House-passed FY2009 Defense Authorization bill, Members stated that "The State of Israel faces a real and growing threat from short- and medium-range ballistic missiles from states such as the Syrian Arab Republic and the Islamic Republic of Iran. The committee believes that the deployment of a U.S. Army-Navy/Transportable-2 (AN/TPY-2) missile defense discrimination radar to Israel would greatly increase the capabilities of both Israel and U.S. forces deployed in support of Israel to defend against ballistic missile threats. Therefore, the committee urges the Department of Defense to begin discussions with Israel about the possibility of deploying an AN/TPY-2 radar on its territory at the earliest feasible date." The Senate version, S. 3001, included an amendment making funds available for the deployment of the AN/TPY-2 forward-based X-band radar.

**Table 2. Defense Budget Appropriations for U.S.-Israeli Missile Defense:  
FY2006-FY2014 Request**  
(Current \$ in millions)

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

**Notes:** a. These funds were not appropriated by Congress but re-programmed by the Obama Administration from other Department of Defense accounts.

## Emergency U.S. Stockpile in Israel

In the early 1980s, Israeli leaders sought to expand what they called their “strategic collaboration” with the United States military by inviting U.S. arms and equipment to be stockpiled at Israeli bases for use in wartime.<sup>40</sup> Nearly a decade later, the United States agreed to establish munitions stockpiles in Israel for use by the United States and, with U.S. permission, for use by Israel in emergency situations. The United States European Command (EUCOM) manages the War Reserves Stock Allies-Israel (WRSA-I) program. The United States stores missiles, armored vehicles and artillery ammunition in Israel.<sup>41</sup> According to one Israeli officer, “Officially, all of this equipment belongs to the US military.... If however, there is a conflict, the IDF [Israel Defense Forces] can ask for permission to use some of the equipment.”<sup>42</sup> During the 2006 war against Hezbollah in Lebanon, the United States granted Israel access to the stockpile.

The initial value of the U.S. materiel stored in Israel was set at \$100 million. It increased over time to \$800 million in 2010. In the 111<sup>th</sup> Congress, lawmakers passed P.L. 111-266, the Security Cooperation Act of 2010. Section 302 of the act amended the Department of Defense Appropriations Act, 2005 to extend the President’s authority to transfer to Israel surplus defense items that are stockpiled in Israel and intended for use as Israeli reserve stocks. This amendment increased the statutorily permitted maximum value of U.S. materiel stored in Israel from \$800

<sup>40</sup> “U.S.- Israel Strategic Link: Both Sides Take Stock,” *New York Times*, October 2, 1981.

<sup>41</sup> The government of Israel pays for approximately 90% of transportation, storage, and maintenance costs associated with the WRSA-I program.

<sup>42</sup> “US may give Israel Iraq Ammo,” *Jerusalem Post*, February 11, 2010.

million to \$1.2 billion.<sup>43</sup> The U.S.-Israel Enhanced Security Cooperation Act of 2012 (P.L. 112-150) further extended the WRSA-I program through FY2014.

## Aid Restrictions and Possible Violations

Although U.S. assistance to Israel has remained high for several decades, the United States has sometimes restricted aid or rebuked Israel for possible improper use of U.S.-supplied military equipment. The 1952 Mutual Defense Assistance Agreement and subsequent arms agreements between Israel and the United States limit Israel's use of U.S. military equipment to defensive purposes.<sup>44</sup> The Arms Export Control Act states that the United States may stop aid to countries which use U.S. military assistance for purposes other than "legitimate self-defense."<sup>45</sup> The Foreign Assistance Act of 1961, as amended, also contains general provisions on the use of U.S.-supplied military equipment.<sup>46</sup> Some U.S. citizens and interest groups, including representatives of groups with affiliations to various Christian denominations, periodically call upon Congress to ensure that U.S. military assistance to Israel is conditioned on the Israeli government's "compliance with applicable U.S. laws and policies."<sup>47</sup>

### Israeli Arms Transfers to Third Parties

As previously mentioned, Israel has become a global leader in arms exports<sup>48</sup> and, over the last two decades, the United States and Israel have periodically disagreed over Israeli sales of sensitive U.S. and Israeli technologies to third party countries, most notably China.<sup>49</sup> In 2005, the United States suspended Israel from participating in the development of the Joint Strike Fighter (JSF) and imposed other restrictions in defense ties because of Israeli plans to upgrade Chinese Harpy Killer drone aircraft. Israel ultimately canceled the sale.

U.S. restrictions effectively have curtailed almost all Israeli arms sales to China.<sup>50</sup> According to one unnamed Israeli official, "Our policy remains the same today... We do not sell them anything

<sup>43</sup> "US to boost weapons stockpile in Israel," *Agence France Presse*, November 11, 2010.

<sup>44</sup> See, CRS Report R42385, *U.S. Defense Articles and Services Supplied to Foreign Recipients: Restrictions on Their Use*, by Richard F. Grimmett.

<sup>45</sup> 22 U.S.C. § 2754.

<sup>46</sup> For example, see (among other sections), Section 502B, Human Rights (22 U.S.C. 2304), Section 505, Conditions of Eligibility (22 U.S.C. § 2314), and Section 511, Considerations in Furnishing Military Assistance (22 U.S.C. § 2321d).

<sup>47</sup> One example from October 2012 featured representatives of Baptist, Lutheran, Catholic, Presbyterian, Methodist, Orthodox, Quaker and other Christian groups. Available online at: [<http://www.pcusa.org/news/2012/10/5/religious-leaders-ask-congress-condition-israel-mi/>]

<sup>48</sup> Israel's customers include Germany, Spain, France, Canada, Australia, Turkey, Azerbaijan, Singapore, South Korea, Brazil, India, Italy, the Netherlands, Poland and Romania. Israel is also reportedly seeking to expand arms exports in Latin America.

<sup>49</sup> According to one former State Department intelligence analyst, "We started having a problem with Israel in the 1990s, especially after the 1996 Chinese missile threats against Taiwan when we got the feeling that China's ballistic missile technology was modernizing way too fast." See, "U.S.-Israeli Defense Technology Teamwork Began With Confrontation," *Washington Times*, May 24, 2011.

<sup>50</sup> According to one report, since U.S. restrictions on Israeli sales to China were put in place, "Washington has approved only a few, non-offensive, homeland security-related sales to China." See, "Israel-China Revive Military Ties, But Not Defense Trade," *Defense News*, August 17, 2011.

that is defense related and that would jeopardize our ties with the US.”<sup>51</sup> In recent years, Israeli and Chinese military officials have exchanged visits, in what some observers believe has been an attempt by both countries to slowly expand bilateral relations.<sup>52</sup> China has already become one of Israel’s primary economic (non-military) trading partners, serving as Israel’s second or third largest export market.<sup>53</sup> According to one analyst, “Militarily, China is interested not only in original technologies but also in broader knowledge, and Israel, with its vast operational experience, is viewed by China as an authoritative source.... As for the transmission of military technologies, China with its political experience and patience may assume that current export limitations could one day be lifted, and may therefore continue to raise the issue on different occasions.”<sup>54</sup>

In order to create a more transparent arms transfer process, then U.S. Defense Secretary Donald Rumsfeld and then Israeli Defense Minister Shaul Mofaz signed a 2005 bilateral agreement mandating Israeli consultation with the U.S. government on sensitive arms transfers to third parties. The Israeli government also has established its own arms export controls agency to supervise military sales. 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. Sources have reported that this understanding has given the United States de facto veto power over Israeli third-party arms sales that the United States deems harmful to its national security interests.”<sup>55</sup> In June 2005, the Israeli newspaper *Ha’aretz* reported that Israel would voluntarily adhere to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, without actually being a party to it.<sup>56</sup>

On July 17, 2007, the Israeli Knesset passed a Law on Control of Defense Exports that established a new authority in the Defense Ministry to oversee defense exports—involving the Foreign Ministry in the process for the first time. As a result, the United States agreed to establish

<sup>51</sup> “The Chinese Connection,” *Jerusalem Post*, July 6, 2012.

<sup>52</sup> In June 2011, Israeli Defense Minister Ehud Barak visited China, following a May 2011 visit from Chinese Admiral Wu Shengli. According to one Israeli defense official, “We are trying to explain to the Chinese the severity of the Iranian nuclear threat and to get better co-operation.” Then in August 2011, General Chen Bingde, chief of General Staff of the People’s Liberation Army, visited Israel for consultations with Israeli officials. See, Yoram Evron, “The Chinese Chief of Staff Visits Israel: Renewing Military Relations?” *INSS Insight*, No. 275, August 17, 2011.

<sup>53</sup> “China now Israel’s third-largest destination for exports,” *Jerusalem Post*, November 24, 2011. According to one report, bilateral trade reached a record high of \$7.5 billion in the January-November period of 2011, surpassing the \$6.8b. recorded for the full year of 2010. See, “Israel and China - Toward the next 20 years,” *Jerusalem Post*, January 24, 2012.

<sup>54</sup> “Israel seeks rapport with China over Iran,” *Jane’s Defence Weekly*, June 16, 2011.

<sup>55</sup> “U.S. OKs Israel-China Spy Sat Deal,” *DefenseNews.com*, October 12, 2007. This article quotes a U.S. official as saying, “We don’t officially acknowledge our supervisory role or our de facto veto right over their exports.... It’s a matter of courtesy to our Israeli friends, who are very serious about their sovereignty and in guarding their reputation on the world market.”

<sup>56</sup> Ze’ev Schiff et al., “Bowling to U.S. pressure, Israel to curb arms deals,” *Ha’aretz*, June 26, 2005. The participants to the Wassenaar Arrangement have agreed to (1) maintain national export controls on certain conventional arms and dual-use goods and technologies, (2) report on transfers and denials of specified controlled items to destinations outside the Arrangement, and (3) exchange information on sensitive dual-use goods and technologies. Participants include the United States and 39 other countries (including Russia, Japan, South Korea, Australia, New Zealand, South Africa, Canada, and most European countries). More information is available at <http://www.wassenaar.org/>.

a High Technology Forum to institutionalize senior-level U.S.-Israel dialogue to address bilateral high technology trade, investment, and related issues.

## Other Ongoing Assistance and Cooperative Programs

### Migration & Refugee Assistance

Since 1973, Israel has received grants from the State Department's Migration and Refugee Assistance account (MRA)<sup>57</sup> to assist in the resettlement of migrants to Israel. Funds are paid to the United Israel Appeal, a private philanthropic organization in the United States, which in turn transfers the funds to the Jewish Agency for Israel.<sup>58</sup> Between 1973 and 1991, the United States gave about \$460 million for resettling Jewish refugees in Israel. Annual amounts have varied from a low of \$12 million to a high of \$80 million, based on the number of Jews leaving the former Soviet Union and other areas for Israel. The Migration and Refugee funds for Israel are earmarked by Congress; the Administration usually does not request specific amounts of Migration and Refugee assistance for Israel.

**Table 3. Migration and Refugee Assistance Funding Levels**

FY2000:	\$60 million
FY2001:	\$60 million
FY2003:	\$60 million
FY2004:	\$59.6 million
FY2005:	\$49.7 million
FY2006:	\$50 million
FY2007:	\$40 million
FY2008:	\$40 million
FY2009:	\$30 million
FY2010:	\$25 million
FY2011:	\$25 million
FY2012:	\$20 million
FY2013:	\$15 million
FY2014:	\$15 million

**Source:** U.S. State Department.

Congress has changed the earmark language since the first refugee resettlement funds were appropriated in 1973. At first, the congressional language said the funds were for "resettlement in

<sup>57</sup> The MRA account is authorized as part of the State Department's institutional budget but is appropriated through the Foreign Operations Appropriations bill.

<sup>58</sup> The Jewish Agency for Israel's website is available at <http://www.jafi.org.il/>.

Israel of refugees from the Union of Soviet Socialist Republics and from Communist countries in Eastern Europe.” But starting in 1985, the language was simplified to “refugees resettling in Israel” to ensure that Ethiopian Jews would be covered by the funding. Technically, the legislative language designates funds for refugee resettlement, but in Israel little differentiation is made between “refugees” and other immigrants, and the funds are used to support the absorption of all immigrants.

## **Loan Guarantees**

### **Overview**

Since 1972, the United States has extended loan guarantees to Israel to assist with housing shortages, Israel’s absorption of new immigrants from the former Soviet Union and Ethiopia, and its economic recovery following the 2000–2003 recession that was sparked by a Palestinian uprising (known as the second intifada). Loan guarantees are a form of indirect U.S. assistance to Israel, since they enable Israel to borrow from commercial sources at lower rates. Congress directs that subsidies be set aside in a U.S. Treasury account for possible default. These subsidies, which are a percentage of the total loan (based in part on the credit rating of the borrowing country; in the case of the loan guarantees in the 1990s, the subsidy amount was 4.1%), have come from the U.S. or the Israeli government. Israel has never defaulted on a U.S.-backed loan guarantee.

### **Loan Guarantees for Economic Recovery**

In 2003, then Prime Minister Ariel Sharon requested an additional \$8 billion in loan guarantees to help Israel’s ailing economy. The loan guarantee request accompanied a request for an additional \$4 billion in military grants to help Israel prepare for possible attacks during an anticipated U.S. war with Iraq. P.L. 108-11, the FY2003 Emergency Wartime Supplemental Appropriations Act, authorized \$9 billion in loan guarantees over three years for Israel’s economic recovery and \$1 billion in military grants. P.L. 108-11 stated that the proceeds from the loan guarantees could be used only within Israel’s pre-June 5, 1967, borders; that the annual loan guarantees could be reduced by an amount equal to the amount Israel spends on settlements in the occupied territories; that Israel would pay all fees and subsidies; and that the President would consider Israel’s economic reforms when determining terms and conditions for the loan guarantees. On November 26, 2003, the Department of State announced that the \$3 billion loan guarantees for FY2003 were reduced by \$289.5 million because Israel continued to build settlements in the occupied territories and continued construction of the security barrier separating Israelis and Palestinians. In FY2005, the U.S. government further reduced the amount available for Israel to borrow by an additional \$795.8 million. Since then, no other deductions have been made. Israel has not borrowed any funds since FY2005.

According to the U.S. Treasury Department, Israel is legally obligated to use the proceeds of guaranteed loans for refinancing its government debt and also has agreed that proceeds shall not be used for military purposes or to support activities in areas outside its pre-June 5, 1967 borders (the West Bank—including East Jerusalem—and Gaza). However, U.S. officials note that since

Israel's national budget is fungible, proceeds from the issuance of U.S.-guaranteed debt that are used to refinance Israeli government debt free up domestic Israeli funds for other uses.<sup>59</sup>

P.L. 108-447, the FY2005 Consolidated Appropriations Act, first extended the authority of the loan guarantees from FY2005 to FY2007. In the aftermath of the 2006 Israel-Hezbollah conflict, President Bush stated that he would ask Congress to again extend the authorization of loan guarantees to Israel. P.L. 109-472, the 2006 Department of State Authorities Act, extended the authority to provide loan guarantees through FY2011. Under that legislation, the loan guarantee program had a stated end of September 30, 2011; however, there was also a "carryover" provision in the statute under which Israel could draw on unused U.S. guarantees until September 30, 2012. In the summer of 2012, Congress passed and the President signed into law P.L. 112-150, the United States-Israel Enhanced Security Cooperation Act of 2012. Section 5(b) of the law extends the loan guarantee authority until September 30, 2015.<sup>60</sup>

As of 2013, Israel was still authorized to issue up to \$3.8 billion in U.S.-backed bonds. In general, Israel may view U.S. loan guarantees as a "last resort" option, which its treasury could use if unguaranteed local and international bond issuances become too expensive. According to one Israeli official, "We consider the loan guarantees as preparation for a rainy day.... This is a safety net for war, natural disaster and economic crisis, which allows Israel to maintain economic stability in unstable surroundings."<sup>61</sup> Israeli officials may believe that although they have not needed to use the loan guarantees in the last eight years, maintaining the program boosts the country's fiscal standing among international creditors in capital markets.

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<sup>59</sup> CRS correspondence with the U.S. Treasury Department's Office of International Affairs, October 2009.

<sup>60</sup> A 2011 internal report by the State Department's Office of Inspector General reportedly recommended that the loan guarantee program be terminated. According to a purported excerpt of the report published by *Ha'aretz*, "Planning should begin now for [the loan-guarantee program's] orderly termination.... Israel has been admitted to the Organization for Economic Cooperation and Development, an indication that it is now a modern, self-sufficient economy capable of supporting its citizens as an industrialized country. The OIG team found a broad consensus that the loan guarantee program can prudently be terminated in accordance with the sunset clause in the original legislation, which provided that it would end by 2011." See, "U.S. Report Recommends Ending Loan Guarantees to Israel at end of 2011," *Ha'aretz*, July 28, 2011.

<sup>61</sup> "U.S. to Grant Three-year Extension of Loan Guarantees to Israel," *Ha'aretz*, January 24, 2012.

**Table 4. U.S. Loan Guarantees to Israel: FY2003-FY2013**  
( current \$ in millions)

<b>Fiscal Year</b>	<b>Deductions for Settlement Activity</b>	<b>Amount Borrowed by Israel</b>	<b>Amount Available for Israel to Borrow</b>
FY2003	289.5	1,600.0	1,110.5
FY2004	—	2,500.0	1,610.5
FY2005	795.8	—	1,814.7
FY2006	—	—	2,148.0
FY2007	—	—	2,481.4
FY2008	—	—	2,814.7
FY2009	—	—	3,148.0
FY2010	—	—	3,481.0
FY2011	—	—	3,814.0
FY2012	—	—	3,814.0
FY2013	—	—	3,814.0

**Source:** U.S. Department of the Treasury and U.S. State Department.

## **American Schools and Hospitals Abroad Program (ASHA)<sup>62</sup>**

Through Foreign Operations appropriations legislation, Congress has funded the ASHA program as part of the overall Development Assistance (DA) appropriation to the United States Agency for International Development (USAID). According to USAID, ASHA is designed to strengthen self-sustaining schools, libraries, and medical centers that best demonstrate American ideals and practices abroad. ASHA has been providing support to institutions in the Middle East since 1957, and a number of Israeli universities and hospitals have been recipients of ASHA grants. Over the past several years, institutions in Israel such as Nazareth Hospital, Shaare Zedek Medical Center in Jerusalem, The Feinberg Graduate School of the Weizmann Institute of Science, the Sackler Faculty of Medicine of the Tel Aviv University, The Hebrew University of Jerusalem, the Hadassah Medical Organization, and the Sanz Medical Center-Laniado Hospital have received ASHA funding. The Hadassah Medical Organization was nominated for the 2005 Nobel Peace Prize for its equitable treatment of Palestinians and Israeli patients. According to USAID, institutions based in Israel have received the most program funding in the Middle East region.

<sup>62</sup> According to USAID, recipients of ASHA grants on behalf of overseas institutions must be private U.S. organizations, headquartered in the United States, and tax-exempt. The U.S. organization must also serve as the founder and/or sponsor of the overseas institution. Schools must be for secondary or higher education and hospital centers must conduct medical education and research outside the United States. Grants are made to U.S. sponsors for the exclusive benefit of institutions abroad. See [http://www.usaid.gov/our\\_work/cross-cutting\\_programs/asha/](http://www.usaid.gov/our_work/cross-cutting_programs/asha/).

**Table 5. ASHA Program Grants from Israel Account, FY2000-FY2012**

Fiscal year	Amount
FY2000	\$2.75 million
FY2001	\$2.25 million
FY2002	\$2.65 million
FY2003	\$3.05 million
FY2004	\$3.15 million
FY2005	\$2.95 million
FY2006	\$3.35 million
FY2007	\$2.95 million
FY2008	\$3.90 million
FY2009	\$3.90 million
FY2010	\$3.80 million
FY2011	\$4.225 million
FY2012	\$3.00 million
<b>Total</b>	<b>\$41.925 million</b>

Source: USAID.

## U.S.-Israeli Scientific & Business Cooperation

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

- The BIRD Foundation** (Israel-U.S. Binational Research & Development Foundation).<sup>63</sup> BIRD, which was established in 1977, provides matchmaking services between Israeli and American companies in research and development with the goal of expanding cooperation between U.S. and Israeli private high tech industries. The mission of the Foundation is "to stimulate, promote and support joint (non-defense) industrial R&D of mutual benefit to..." the two countries.<sup>64</sup> Projects are supported in the areas of homeland security, communications, electronics, electro-optics, software, life sciences, and renewable and alternative energy, among others.<sup>65</sup> According to the Foundation, \$295 million in grants have been awarded to almost a thousand projects. While support for military projects

<sup>63</sup> See <http://www.birdf.com/default.asp>. Congress helped establish BIRD's endowment with appropriations of \$30 million and \$15 million in 1977 and 1985, respectively. These grants were matched by the Israeli government for a total endowment of \$90 million.

<sup>64</sup> Eitan Ydilevich, "Building U.S.-Israel Economic Partnerships, The BIRD Model," Washington, DC. June 10, 2010, p. 2.

<sup>65</sup> BIRD Foundation, What is BIRD?, available at <http://www.birdf.com/Index.asp?CategoryID=22&ArticleID=79>

are not a part of the program, several of the completed ventures have yielded products that might be useful in a military setting, including the Aircraft Enhanced Vision System (EVS) camera, “which is designed to provide day/night improved orientation during taxiing or flying. It allows visual landing in reduced visibility conditions, such as fog, haze, dust, smog etc.” The Foundation also funded the creation of a Through-Wall Location and Sensing System that is portable and “detects whether people are present behind walls, how many, and where they are situated.”<sup>66</sup>

- **The BSF Foundation** (U.S.-Israel Binational Science Foundation).<sup>67</sup> BSF, which was started in 1972, promotes cooperation in scientific and technological research.
- **The BARD Foundation** (Binational Agriculture and Research and Development Fund). BARD was created in 1978 and supports U.S.-Israeli cooperation in agricultural research.<sup>68</sup>
- In 1995, the United States and Israel established **The U.S.-Israel Science and Technology Foundation (USISTF)** to fund and administer projects mandated by the U.S.-Israel Science and Technology Commission (USISTC)<sup>69</sup>, a bilateral entity jointly established by the United States Department of Commerce and the Israel Ministry of Industry, Trade, and Labor in 1994 to foster scientific, technological, and economic cooperation between the two countries.

## U.S.-Israeli Energy Cooperation

In 2005, Congress began to consider legislation to expand U.S.-Israeli scientific cooperation in the field of renewable energy. Lawmakers reviewed legislation in the House and the Senate entitled, “The United States-Israel Energy Cooperation Act.” Various forms of the bill would have authorized the Department of Energy to establish a joint U.S.-Israeli grant program to fund research in solar, biomass, and wind energy, among other directives. Section 917 of P.L. 110-140, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act of 2007, contains the original language of the U.S.-Israel Energy Cooperation Act (H.R. 1838). Although it did not appropriate any funds for joint research and development, it did establish a grant program to support research, development, and commercialization of renewable energy or energy efficiency.

<sup>66</sup> Information from the BIRD Foundation website, <http://www.birdf.com>.

<sup>67</sup> See <http://www.bsf.org.il/Gateway4/>. Congress helped establish BSF’s endowment with appropriations of \$30 million and \$20 million in 1972 and 1984 respectively. These grants were matched by Israel for a total endowment of \$100 million. According to the treaty establishing the Foundation, the Foundation shall use the interest, as well as any funds derived from its activities, for the operations of the Foundation.

<sup>68</sup> See <http://www.bard-isus.com/>. Congress helped establish BARD’s endowment with appropriations of \$40 million and \$15 million in 1979 and 1985 respectively. These grants were matched by the State of Israel for a total endowment of \$110 million. In recent years, Congress has provided funds for BARD in annual Agriculture Appropriations legislation at approximately \$500,000 a year.

<sup>69</sup> The U.S.-Israel Science and Technology Commission (USISTC) was established in 1993 to facilitate cooperative ventures between high tech industries in the two countries. The goal of the program is to “to maximize the contribution of technology to economic growth.” While the collaborative work may be somewhat similar to that supported by the BIRD Foundation, “the Science and Technology Commission assists in the commercialization of new technologies with longer lead times to market. These projects involve higher risk and require substantial capital commitments.” The ventures are funded and administered by the U.S.-Israel Science and Technology Foundation. The U.S. and Israeli governments each committed \$15 million to the effort over three years for a total of \$30 million.

The law also authorized the Secretary of Energy to provide funds for the grant program as needed.

To date, Congress and the Administration have provided a total of \$6.3 million for the grant program, known as BIRD Energy. In FY2009, Congress provided \$2 million for the program in P.L. 111-8, the Omnibus Appropriations Act, 2009.<sup>70</sup> In FY2010, Congress provided an additional \$2 million in P.L. 111-85, the Energy and Water Development and Related Agencies Appropriations Act, 2010. In FY2011, the Department of Energy allocated \$300,000 in discretionary spending for Bird Energy. For FY2012, Congress provided an additional \$2 million in funding. In report language (H.Rept. 112-331) accompanying P.L. 112-74, the Consolidated Appropriations Act 2012, lawmakers directed the Department of Energy “to only fund activities within the International Program that directly benefit domestic industry, increase American energy self-sufficiency, further United States research efforts, or reduce domestic pollution. Within available funds, the conference agreement includes \$2,000,000 for the U.S.-Israel energy cooperative agreement.”

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<sup>70</sup> P.L. 111-8 did not specify an amount for the program but adopted the House version of the energy and water appropriations bill that recommended \$2 million to fund the U.S.-Israeli cooperative agreement. The Senate version had recommended \$5 million for FY2009.

## Appendix A. Historical Background

### 1948-1970

U.S. government assistance to Israel began in 1949 with a \$100 million Export-Import Bank Loan.<sup>71</sup> For the next two decades, U.S. aid to Israel was modest and was far less than in later years.<sup>72</sup> Although the United States provided moderate amounts of economic aid (mostly loans), Israel's main early patron was France, which provided Israel with advanced military equipment and technology.<sup>73</sup> In 1962, Israel purchased its first advanced weapons system from the United States (Hawk anti-aircraft missiles).<sup>74</sup> In 1968, a year after Israel's victory in the Six Day War, the Johnson Administration, with strong support from Congress, approved the sale of Phantom aircraft to Israel, establishing the precedent for U.S. support for what later came to be referred to as Israel's qualitative military edge over its neighbors.<sup>75</sup>

### 1970-Present

Large-scale U.S. assistance for Israel increased considerably after several consecutive Arab-Israeli wars in the late 1960s and early 1970s created a sense among many Americans that Israel was continually under siege.<sup>76</sup> Consequently, Congress, supported by broad U.S. public opinion, committed to strengthening Israel's military and economy through large increases in foreign aid. From 1966 through 1970, average aid per year increased to about \$102 million and military loans increased to about 47% of the total. In 1971, the United States provided Israel with military loans of \$545 million, up from \$30 million in 1970. Also in 1971, Congress first designated a specific amount of aid for Israel in legislation (an "earmark"). Economic assistance changed from project aid, such as support for agricultural development work, to a Commodity Import Program (CIP) for the purchase of U.S. goods.<sup>77</sup> In effect, the United States stepped in to fill the role that France had relinquished when French President Charles de Gaulle refused to supply Israel with military hardware to protest its preemptive launch of the Six Day War in June 1967. Israel became the largest recipient of U.S. foreign assistance in 1974, and has only been superseded at various times by Iraq and Afghanistan in the past decade because of short-term U.S. aid aimed at building those

<sup>71</sup> In 1948, President Harry Truman, who sympathized with the plight of Israel in its early days and recognized its statehood over the objections of some of his top advisors, placed an arms embargo on Israel and her Arab neighbors in order to keep the United States neutral in the ongoing Arab-Israeli conflict. The Tripartite Declaration of 1950 reaffirmed U.S., British, and French opposition to the development of Arab-Israeli arms races.

<sup>72</sup> From 1949 through 1965, U.S. aid to Israel averaged about \$63 million per year, over 95% of which was economic development assistance and food aid. A modest military loan program began in 1959.

<sup>73</sup> France supplied Israel with military equipment mainly to counter Egypt. In the 1950s and early 1960s, Egypt antagonized France by providing arms and training for Algeria's war for independence against France.

<sup>74</sup> "America's Staunchest Mideast Ally," *Christian Science Monitor*, August 21, 2003.

<sup>75</sup> Section 303 of P.L. 90-554, *Foreign Assistance Act of 1968*, expresses the sense of Congress to see the United States negotiate the sale of supersonic aircraft to Israel.

<sup>76</sup> Between 1967 and 1973, Israel and its Arab neighbors fought the June 1967 War, the ensuing War of Attrition (1969), and the October 1973 War. Israel also was engaged in low level guerrilla warfare with the Palestinian Liberation Organization and other groups, which had bases in Jordan and later in Lebanon. The 1974 emergency aid for Israel, following the 1973 war, included the first U.S. military grant aid to Israel.

<sup>77</sup> The Commodity Import Program for Israel ended in 1979 and was replaced with direct, largely unconditional cash transfers.

countries' indigenous security capabilities. From 1971 to the present, U.S. aid to Israel has averaged over \$2.6 billion per year, two-thirds of which has been military assistance.

## **The 1979 Israeli-Egyptian Peace Treaty**

The 1979 peace treaty between Israel and Egypt ushered in the current era of U.S. financial support for peace between Israel and its Arab neighbors. To facilitate a full and formal cessation of hostilities and Israel's return of the Sinai Peninsula to Egypt, the United States provided a total of \$7.5 billion to both parties in 1979. The "Special International Security Assistance Act of 1979" (P.L. 96-35) provided military and economic grants to Israel and Egypt at a ratio of 3:2, respectively.<sup>78</sup>

## **Emergency Aid**

U.S. assistance also has been used to help ease financial pressures on the Israeli treasury during recession.<sup>79</sup> In 1985, the United States significantly increased U.S. assistance to Israel, with Congress passing a special economic assistance package of \$1.5 billion in order to help the Israeli economy cope with soaring inflation and economic stagnation.<sup>80</sup> As part of the assistance agreement, the United States and Israel formed the U.S.-Israel Joint Economic Development Group (JEDG) to support Israeli economic reforms.<sup>81</sup> In addition, U.S. economic aid was converted to a cash grant transfer in 1981, and all U.S. military aid to Israel was converted from loans into grants in 1985.<sup>82</sup>

During difficult times for Israel, U.S. aid to Israel has increased. In 1991, Congress provided Israel \$650 million in emergency grants to pay for damage and other costs from Operation Desert Storm, as well as Patriot missiles to defend against Iraqi Scud missile attacks. After the 1991 collapse of the Soviet Union and the ensuing increase in migration of Russian and other Eastern bloc Jews to Israel, Congress approved \$10 billion in loan guarantees for Israel to help it absorb immigrants and provide them with adequate social services. Finally, in the aftermath of the 2003 Iraq invasion, Congress passed the FY2003 Emergency Supplemental Appropriations Act (P.L. 108-11), which included \$9 billion in loan guarantees over three years for Israel's economic recovery and \$1 billion in military grants.

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<sup>78</sup> This ratio is not found in the text of the 1978 Camp David Accords and or the 1979 Israel-Egypt treaty. U.S. officials have not formally recognized the ratio. Egypt believes that, since it took political risks in making peace with Israel, the United States should be even-handed in its assistance policy to the region. The Egyptian government claims that a 3:2 ratio between Israel and Egypt was established during the negotiations.

<sup>79</sup> Beginning in the mid-1970s, Israel could no longer meet its balance of payments and government deficits with imported capital (gifts from overseas Jews, West German reparations, regular U.S. aid) and began to rely more on borrowed capital. Growing debt servicing costs, mounting government social services expenditures, perennial high defense spending, and a stagnant domestic economy combined with worldwide inflation and declining foreign markets for Israeli goods to push the Israeli economy into a near crisis situation in the mid-1980s.

<sup>80</sup> See Title I, Chapter V of P.L. 99-88, Economic Support Fund Assistance for Israel, Egypt, and Jordan. In 1985, the United States and Israel also concluded a Free Trade Agreement, which dramatically boosted Israeli exports to the United States.

<sup>81</sup> The JEDG meets on an annual basis to discuss financial sector and labor market reforms, trade liberalization, and privatization. The JEDG also monitors the disbursement of U.S. loan guarantees to Israel.

<sup>82</sup> The 1974 emergency aid for Israel, following the 1973 war, included the first U.S. military grant aid.

## Using Aid to Support the Peace Process

During the 1990s, the United States provided aid to support the Israeli-Palestinian peace process. In late 1998, Israel requested \$1.2 billion in additional U.S. aid to fund the movement of troops and military installations out of areas of the West Bank as called for in the October 23, 1998, Wye Agreement.<sup>83</sup> The Clinton Administration requested this amount for Israel despite the fact that the Wye Agreement's implementation had stalled. President Clinton vetoed H.R. 2606, the FY2000 foreign operations appropriations bill, in part because it did not include the Wye funding. On November 29, 1999, the President signed the consolidated appropriations bill, H.R. 3194 (P.L. 106-113), which included in Division B passage of H.R. 3422, the Foreign Operations Appropriations bill. Title VI of H.R. 3422 included the \$1.2 billion Wye funding for Israel.

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<sup>83</sup> The full text of the 1998 Wye River Memorandum, a U.S.-brokered Israeli-Palestinian security agreement, is available at <http://www.mfa.gov.il/NR/exeres/EE54A289-8F0A-4CDC-93C9-71BD631109AB.htm>.

## Appendix B. Bilateral Aid to Israel

**Table B-1** shows cumulative U.S. aid to Israel for FY1949 through FY1996, and U.S. aid to Israel for each fiscal year since. Detail for the years 1949-1996 is shown in **Table B-2** and **Table B-3**.

**Table B-1. Recent U.S. Bilateral Aid to Israel**  
(millions of dollars)

Year	Total	Military Grant	Economic Grant	Immig. Grant	ASHA	All other
1949-1996	68,030.9	29,014.9	23,122.4	868.9	121.4	14,903.3
1997	3,132.1	1,800.0	1,200.0	80.0	2.1	50.0
1998	3,080.0	1,800.0	1,200.0	80.0	—	—
1999	3,010.0	1,860.0	1,080.0	70.0	—	—
2000	4,131.85	3,120.0	949.1	60.0	2.75	—
2001	2,876.05	1,975.6	838.2	60.0	2.25	—
2002	2,850.65	2,040.0	720.0	60.0	2.65	28.0
2003	3,745.15	3,086.4	596.1	59.6	3.05	—
2004	2,687.25	2,147.3	477.2	49.7	3.15	9.9
2005	2,612.15	2,202.2	357.0	50.0	2.95	—
2006	2,534.5	2,257.0	237.0	40.0	—	0.5
2007	2,503.15	2,340.0	120.0	40.0	2.95	0.2
2008	2,423.9	2,380.0	0	40.0	3.90	0
2009	2,583.9	2,550.0	0	30.0	3.90	0
2010	2,803.8	2,775.0	0	25.0	3.80	0
2011	3,029.22	3,000.0	0	25.0	4.225	0
2012	3,098.0	3,075.0	0	20.0	3.00	0
2013	3,115.0 (Before Sequestration)	3,100.0	0	15.0	—	0
2014 Request	3,115.0	3,100.0	0	15.0	—	0
<b>Total</b>	<b>118,247.57</b>	<b>70,523.4</b>	<b>30,897.0</b>	<b>1,673.2</b>	<b>162.075</b>	<b>14,991.9</b>

**Notes:** ESF was earmarked for \$960 million for FY2000 but was reduced to meet a 0.38% rescission. FY2000 military grants include \$1.2 billion for the Wye agreement and \$1.92 billion in annual military aid. Final amounts for FY2003 are reduced by 0.65% mandated rescission, and final amounts for FY2004 are reduced by 0.59%.

The \$600 million in housing loan guarantees, \$5.5 billion in military debt reduction loan guarantees, \$9.2 billion in Soviet Jew resettlement loan guarantees, and \$9 billion in economic recovery loan guarantees are not included in the tables because the United States government did not transfer funds to Israel. The United States underwrote loans to Israel from commercial institutions.

**Table B-2. U.S. Assistance to Israel, FY1949-FY1996**

(millions of dollars)

Year	Total	Military Loan	Military Grant	Economic Loan	Economic Grant	FFP Loan	FFP Grant
1949	100.0	-	-	-	-	-	-
1950	-	-	-	-	-	-	-
1951	35.1	-	-	-	0.1	-	-
1952	86.4	-	-	-	63.7	-	22.7
1953	73.6	-	-	-	73.6	-	a
1954	74.7	-	-	-	54.0	-	20.7
1955	52.7	-	-	20.0	21.5	10.8	0.4
1956	50.8	-	-	10.0	14.0	25.2	1.6
1957	40.9	-	-	10.0	16.8	11.8	2.3
1958	85.4	-	-	15.0	9.0	34.9	2.3
1959	53.3	0.4	-	10.0	9.2	29.0	1.7
1960	56.2	0.5	-	15.0	8.9	26.8	4.5
1961	77.9	a	-	16.0	8.5	13.8	9.8
1962	93.4	13.2	-	45.0	0.4	18.5	6.8
1963	87.9	13.3	-	45.0	-	12.4	6.0
1964	37.0	-	-	20.0	-	12.2	4.8
1965	65.1	12.9	-	20.0	-	23.9	4.9
1966	126.8	90.0	-	10.0	-	25.9	0.9
1967	23.7	7.0	-	5.5	-	-	0.6
1968	106.5	25.0	-	-	-	51.3	0.5
1969	160.3	85.0	-	-	-	36.1	0.6
1970	93.6	30.0	-	-	-	40.7	0.4
1971	634.3	545.0	-	-	-	55.5	0.3
1972	430.9	300.0	-	-	50.0	53.8	0.4
1973	492.8	307.5	-	-	50.0	59.4	0.4
1974	2,621.3	982.7	1,500.0	-	50.0	-	1.5
1975	778.0	200.0	100.0	-	344.5	8.6	-
1976	2,337.7	750.0	750.0	225.0	475.0	14.4	a
TQ	292.5	100.0	100.0	25.0	50.0	3.6	-
1977	1,762.5	500.0	500.0	245.0	490.0	7.0	-
1978	1,822.6	500.0	500.0	260.0	525.0	6.8	-
1979	4,888.0	2,700.0	1,300.0	260.0	525.0	5.1	-
1980	2,121.0	500.0	500.0	260.0	525.0	1.0	-
1981	2,413.4	900.0	500.0	-	764.0	-	-
1982	2,250.5	850.0	550.0	-	806.0	-	-

Year	Total	Military Loan	Military Grant	Economic Loan	Economic Grant	FFP Loan	FFP Grant
1983	2,505.6	950.0	750.0	-	785.0	-	-
1984	2,631.6	850.0	850.0	-	910.0	-	-
1985	3,376.7	-	1,400.0	-	1,950.0	-	-
1986	3,663.5	-	1,722.6	-	1,898.4	-	-
1987	3,040.2	-	1,800.0	-	1,200.0	-	-
1988	3,043.4	-	1,800.0	-	1,200.0	-	-
1989	3,045.6	-	1,800.0	-	1,200.0	-	-
1990	3,034.9	-	1,792.3	-	1,194.8	-	-
1991	3,712.3	-	1,800.0	-	1,850.0	-	-
1992	3,100.0	-	1,800.0	-	1,200.0	-	-
1993	3,103.4	-	1,800.0	-	1,200.0	-	-
1994	3,097.2	-	1,800.0	-	1,200.0	-	-
1995	3,102.4	-	1,800.0	-	1,200.0	-	-
1996	3,144.0	-	1,800.0	-	1,200.0	-	-
<b>Total</b>	<b>68,030.9</b>	<b>11,212.5</b>	<b>29,014.9</b>	<b>1,516.5</b>	<b>23,122.4</b>	<b>588.5</b>	<b>94.1</b>

**Notes:** a = less than \$50,000

- = None

NA = Not Available

TQ = Transition Quarter, when the U.S. fiscal year changed from June to September.

FFP = Food for Peace

Cooperative Development Grant: Three programs are in the cooperative development category: Middle East Regional Cooperation (MERC) intended for projects that foster economic growth and economic cooperation between Israel and its neighbors; Cooperative Development Program (CDP); and the Cooperative Development Research (CDR), both of which fund Israel's foreign aid program. Israel received about one half of the \$94 million MERC, and all of the \$53 million CDP and \$39 million CDR.

"Other Loan" is a CCC loan. "Other Grants" are \$20 million in 1975 for a seawater desalting plant and \$50 million in 1996 for anti-terrorism.

Definition of Aid: Under the category of foreign aid, some people include other funds transferred to Israel, such as the \$180 million for research and development of the Arrow missile, or the \$7.9 billion in loan guarantees

**Table B-3. U.S. Assistance to Israel, FY1949-FY1996**

(millions of dollars)

Year	Ex-Im. Bank Loan	Jewish Refug. Resettle Grant	Amer. Schools & Hosp. Grant	Other Loan	Coop. Devel. Grant	Other Grant
1949	100.0	-	-	-	-	-
1950	-	-	-	-	-	-
1951	35.0	-	-	-	-	-
1952	-	-	-	-	-	-
1953	-	-	-	-	-	-
1954	-	-	-	-	-	-
1955	-	-	-	-	-	-
1956	-	-	-	-	-	-
1957	-	-	-	-	-	-
1958	24.2	-	-	-	-	-
1959	3.0	-	-	-	-	-
1960	0.5	-	-	-	-	-
1961	29.8	-	-	-	-	-
1962	9.5	-	-	-	-	-
1963	11.2	-	-	-	-	-
1964	-	-	-	-	-	-
1965	3.4	-	-	-	-	-
1966	-	-	-	-	-	-
1967	9.6	-	1.0	-	-	-
1968	23.7	-	6.0	-	-	-
1969	38.6	-	-	-	-	-
1970	10.0	-	12.5	-	-	-
1971	31.0	-	2.5	-	-	-
1972	21.1	-	5.6	-	-	-
1973	21.1	50.0	4.4	-	-	-
1974	47.3	36.5	3.3	-	-	-
1975	62.4	40.0	2.5	-	-	20.0
1976	104.7	15.0	3.6	-	-	-
TQ	12.6	-	1.3	-	-	-
1977	0.9	15.0	4.6	-	-	-
1978	5.4	20.0	5.4	-	-	-
1979	68.7	25.0	4.2	-	-	-
1980	305.9	25.0	4.1	-	-	-
1981	217.4	25.0	2.0	-	5.0	-
1982	6.5	12.5	3.0	17.5	5.0	-

Year	Ex-Im. Bank Loan	Jewish Refug. Resettle Grant	Amer. Schools & Hosp. Grant	Other Loan	Coop. Devel. Grant	Other Grant
1983	-	12.5	3.1	-	5.0	-
1984	-	12.5	4.1	-	5.0	-
1985	-	15.0	4.7	-	7.0	-
1986	15.0	12.0	5.5	-	10.0	-
1987	-	25.0	5.2	-	10.0	-
1988	-	25.0	4.9	-	13.5	-
1989	-	28.0	6.9	-	10.7	-
1990	-	29.9	3.5	-	14.4	-
1991	-	45.0	2.6	-	14.7	-
1992	-	80.0	3.5	-	16.5	-
1993	-	80.0	2.5	-	20.9	-
1994	-	80.0	2.7	-	14.5	-
1995	-	80.0	2.9	-	19.5	-
1996	-	80.0	3.3	-	14.0	50.0
<b>Total</b>	<b>1218.5</b>	<b>868.9</b>	<b>121.4</b>	<b>17.5</b>	<b>185.7</b>	<b>70.0</b>

**Notes:** a = less than \$50,000

- = None

NA = Not Available

TQ = Transition Quarter, when the U.S. fiscal year changed from June to September.

FFP = Food for Peace

Cooperative Development Grant: Three programs are in the cooperative development category: Middle East Regional Cooperation (MERC) intended for projects that foster economic growth and economic cooperation between Israel and its neighbors; Cooperative Development Program (CDP); and the Cooperative Development Research (CDR), both of which fund Israel's foreign aid program. Israel received about one half of the \$94 million MERC, and all of the \$53 million CDP and \$39 million CDR.

"Other Loan" is a CCC loan. "Other Grants" are \$20 million in 1975 for a seawater desalting plant and \$50 million in 1996 for anti-terrorism.

Definition of Aid: Under the category of foreign aid, some people include other funds transferred to Israel, such as the \$180 million for research and development of the Arrow missile, or the \$7.9 billion in loan guarantees for housing or settling Soviet Jews in Israel. None of these funds is included in this table.

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