Order Code RL33476

Israel: Background and Relations with the United States

Updated September 21, 2006

Carol Migdalovitz
Specialist in Middle Eastern Affairs
Foreign Affairs, Defense, and Trade Division

Israel: Background and Relations with the United States

Summary

On May 14, 1948, the State of Israel declared its independence and was immediately engaged in a war with all of its neighbors. Armed conflict has marked every decade of Israel's existence. Despite its unstable regional environment, Israel has developed a vibrant parliamentary democracy, albeit with relatively fragile governments. Most recently, the Kadima Party placed first in the March 28, 2006, Knesset (parliament) election, and Prime Minister Ehud Olmert formed a four-party coalition government. Israel has an advanced industrial, market economy in which the government plays a substantial role.

Israel's foreign policy is focused largely on its region, Europe, and the United States. The government views Iran as an existential threat due to its nuclear ambitions and support for anti-Israel terrorists. Israel concluded a peace treaty with Egypt in 1979 and with Jordan in 1994, although it never achieved accords with Syria and Lebanon. It negotiated a series of agreements with the Palestinians in the 1990s, but the Oslo peace process ended in 2000, with the *intifadah* or uprising against Israeli occupation. Israeli and Palestinian officials have accepted but have not implemented the "Roadmap," the international framework for achieving a two-state solution to their conflict. Israel unilaterally disengaged from Gaza in summer 2005 and is constructing a security barrier in the West Bank to separate from the Palestinians. The victory of the Hamas terrorist group in the January 2006 Palestinian parliamentary elections complicated Israeli-Palestinian relations and added impetus to Israeli ideas for unilateral steps in the West Bank. On June 25, the Hamas military wing kidnaped an Israeli soldier, provoking Israeli military operations to force his release. Israel unilaterally withdrew from southern Lebanon in 2000, but Hezbollah occupied the area and continued to fire rockets from it into northern Israel. Hezbollah sparked a major conflict when it kidnaped two Israel soldiers on July 12; a cease-fire took effect on August 14. European countries collectively are Israel's second largest trading partner, and the EU participates in the peace process.

Since 1948, the United States and Israel have developed a close friendship based on common democratic values, religious affinities, and security interests. U.S.-Israeli bilateral relations are multidimensional. The United States is the principal proponent of the Arab-Israeli peace process, but U.S. and Israeli views differ on various peace process issues, such as the fate of the Golan Heights, Jerusalem, and Israeli settlements. The United States and Israel concluded a free-trade agreement in 1985, and the United States is Israel's largest trading partner. Since 1976, Israel has been the largest recipient of U.S. foreign aid. The two countries also have close security relations. Other issues in U.S.-Israeli relations include Israel's military sales to China, inadequate Israeli protection of U.S. intellectual property, and espionage-related cases. This report replaces CRS Issue Brief IB82008, *Israel: Background and Relations with the United States*, and will be updated as developments warrant. See also CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*, and CRS Report RL33222, *U.S. Foreign Aid to Israel.*

Contents

List of Figures

List of Tables

Israel: Background and Relations with the United States

Most Recent Developments

Israel engaged in a two-front war against U.S.-designated terrorist groups in response to the June 25 kidnaping of an Israeli soldier by Hamas and others near Gaza and the July 12 abduction of two Israeli soldiers from northern Israel by Hezbollah.[1] The Israeli public and parliament supported the war in Lebanon as a legitimate response to an attack on sovereign Israeli territory and a long overdue reaction to Hezbollah rocket attacks on northern Israel. During the war, however, the Israeli public and press increasingly questioned its prosecution.

After the war, critics noted that the kidnaped soldiers had not been released and that Hezbollah retained its arms and may have been strengthened politically. Charges levied against the government and military leadership include hesitant decision-making; poor intelligence concerning Hezbollah locations, arms, tactics, and capabilities; deficient training and equipment for mobilized reservists; tactics unsuitable for terrain and enemy; excessive reliance on air power; ill-prepared home front defense; and inadequate presentation of the Israeli view to international audiences. Yet, the government claimed success in forcing Hezbollah from the border and in degrading its arms, particularly in destroying its long-range rockets, and in pressuring the Lebanese government, aided by international forces, to assert itself in south Lebanon. Israeli officials took Hezbollah leader Shaykh Hassan Nasrallah's admission that he would not have authorized the July 12 action if he had known how strongly Israel would react as confirmation that the group has been weakened and that Israel's deterrence has been strengthened.[2]

Nonetheless, after the war, public opinion polls indicated that support for the government has fallen sharply and that much of the public favors the resignations of Prime Minister Ehud Olmert, Defense Minister Amir Peretz, and Israeli Defense

---

[1] For extensive coverage of these developments, see CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz and CRS Report RL33566, *Lebanon: the Israel-Hamas-Hezbollah Conflict*, coordinated by Jeremy M. Sharp.

[2] Nasrallah's August 27, 2006 interview with Lebanon television, cited by Joshua Mitnick, "Hezbollah Says Its War with Israel Was a Mistake," *Washington Times*, August 28, 2006, among others.

Forces (IDF) Chief of Staff Gen. Dan Halutz.[3] Support for the two main coalition partners, Kadima and Labor, also has plunged, while that for the rightist Likud and Yisrael Beiteinu parties and their leaders, Benjamin Netanyahu and Avigdor Lieberman, increased. The incumbents have no plans to resign. Olmert is not challenged as leader of his Kadima party, but Peretz's hold on Labor's helm may be more insecure. Peretz's internecine foes include former Ben Gurion University President Avishay Braverman and former Shin Bet (Israeli counterintelligence and internal security service) head Ami Ayalon, who were high on the Labor list in the last election but failed to get cabinet posts. The next Labor leadership primary is scheduled for May 2007.

Amid post-war recriminations and public demonstrations, Prime Minister Olmert rejected demands for an independent state commission of inquiry and, after a false start, named retired Judge Eliyahu Winograd to head a committee to investigate wartime decision-making. Olmert said that the committee would be granted authority equal to that of an independent commission. In addition, State Comptroller Micha Lindenstrauss is probing failures in home front preparedness.

As a result of the war, the government has shelved plans for unilateral disengagement from the West Bank. Many Israelis believe that unilateral disengagements from the south Lebanon and the Gaza Strip had enabled the transformation of those regions into terrorist bases and led to war. Olmert has announced that rehabilitating the war-torn north will be his priority and pledged $2.3 billion over several years for the effort. Olmert's Kadima Party, which won election on a promise of disengagement, may need a new vision.

Several government scandals are brewing: Justice Minister Haim Ramon resigned after being indicted for indecent assault on a female soldier and is on trial. Police continue to investigate allegations of sexual offenses against President Moshe Katzav. The Chairman of the Knesset Foreign Affairs and Defense Committee, Kadima MK Tsahi Hanegbi is facing trial for alleged illegal conduct during his tenure as a cabinet minister from 2001-2003. And, the State Comptroller accused Prime Minister Olmert of corruption for appointments of unqualified party cronies during his former tenure as Minister of Industry and turned the case file over to the Attorney General. All of the accused have denied wrongdoing.

Historical Overview of Israel[4]

The quest for a modern Jewish homeland was launched with the publication of Theodore Herzl's *The Jewish State* in 1896. The following year, Herzl described his vision at the first Zionist Congress, which encouraged Jewish settlement in Palestine, a land that had been the Biblical home of the Jews and was later part of the Ottoman

---

[3] Dahaf poll conducted August 23, 2006, cited in "Israel Polls: Olmert, Peretz, and Halutz Must Quit," *Yedi'ot Aharonot*, August 25, 2006, Open Source Center Document GMP 20060825738003.

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

Empire. In 1917, the British government issued the Balfour Declaration, supporting the "establishment in Palestine (which had become a British mandate after World War I) of a national home for the Jewish people." Britain also made conflicting promises to the Arabs concerning the fate of Palestine, which had an overwhelmingly Arab populace. Nonetheless, Jews immigrated to Palestine in ever greater numbers and, following World War II, the plight of Jewish survivors of the Nazi holocaust gave the demand for a Jewish home greater poignancy and urgency.

In 1947, the U.N. developed a partition plan to divide Palestine into Jewish and Arab states, with Jerusalem under U.N. administration. The Arab states rejected the plan. On May 14, 1948, the State of Israel proclaimed its independence and was immediately invaded by Arab armies. The conflict ended with armistice agreements between Israel and its neighbors: Egypt, Jordan, Lebanon, and Syria. Israel engaged in armed conflict with some or all of these countries in 1948, 1956, 1967, 1973, and 1982. Since the late 1960s, Israel also has dealt with the threat of Palestinian terrorism. In 1979, Israel concluded a peace treaty with Egypt, thus making another multi-front war unlikely. Israel's current relations with its neighbors are discussed in "Foreign Policy" below.

Government and Politics

Overview

Israel is a parliamentary democracy in which the President is head of state and the Prime Minister is head of government. The unicameral parliament (the Knesset) elects a president for a seven-year term. The Prime Minister is the leader of the party with the most seats in parliament. The political spectrum is highly fragmented, with small parties exercising disproportionate power due to the low vote threshold for entry into parliament and the need for their numbers to form coalition governments. In the March 2006, election, the threshold to enter parliament was raised from 1% to 2% — an action intended to bar some smaller parties from parliament but that spurred some parties to join together simply to overcome the threshold. National elections must be held at least every four years, but are often held earlier due to difficulties in holding coalitions together. The average life span of an Israeli government is 22 months. The peace process, the role of religion in the state, and political scandals have caused coalitions to break apart or produced early elections.

Israel does not have a constitution. Instead, 11 Basic Laws lay down the rules of government and enumerate fundamental rights; two new Basic Laws are under consideration.[5] On February 2, 2006, the Knesset's Constitution, Law, and Justice Committee approved a draft constitution encompassing existing Basic Laws and a chapter of human rights and basic principles. However, the coalition agreement of the government that took power in April promised the ultra-orthodox Shas Party that Basic Laws would not be changed (i.e., transformed into a Constitution) without its approval. Israel has an independent judiciary, with a system of magistrates courts and district courts topped by a Supreme Court.

---

[5] For Basic Laws, see [http://www.mfa.gov.il/mfa/government/law/basic%20laws/].

There is an active civil society. Some political pressure groups are especially concerned with the peace process, including the Council of Judea, Samaria, and Gaza (Yesha Council), which represents local settler councils and opposes any withdrawal from occupied Arab territories, and Peace Now, which opposes settlements, the security barrier in the West Bank, and seeks territorial compromise. Both groups have U.S. supporters.

Recent Political Developments

Israel's domestic politics have been troubled in recent years. Prime Minister Ariel Sharon's plan to disengage from the Gaza Strip and four small West Bank settlements split his Likud Party. In November 2005, Histadrut labor federation head Amir Peretz defeated acting party leader Shimon Peres and former Infrastructure Minister Benjamin Ben Eliezer in a Labor Party leadership primary. Peretz emphasized the party's need to champion socioeconomic goals, which it had subordinated for the sake of joining Sharon's coalition. On November 20, Labor voted to withdraw from the coalition government, depriving Sharon of his parliamentary majority.

On November 21, Sharon said that he was no longer willing to deal with Likud rebels, resigned from the party, and founded a new "centrist" party, Kadima (Forward). He asked President Katzav to dissolve parliament and schedule an early election. Some 18 Likud Members of the Knesset (parliament) (MKs), including several ministers, the chairman of the Likud Central Committee, several Labor MKs, players in other political parties, and prominent personalities joined Kadima. Former Labor leader Peres supported Sharon. Kadima's platform or Action Plan stated that in order to secure a Jewish majority in a democratic Jewish State of Israel, part of the Land of Israel (defined by some Israelis as the area between the Jordan River and the Mediterranean Sea) would have to be ceded. It affirmed a commitment to the Road Map, the international framework for achieving a two-state solution to the Israeli-Palestinian conflict. Israel would keep settlement blocs, the security barrier, and a united Jerusalem, while demarcating permanent borders.[6]

Former Prime Minister and Finance Minister Benjamin Netanyahu won a Likud primary to replace Sharon as leader of Likud on December 19. Netanyahu called for "defensible walls" against Hamas and borders that would include the Jordan Valley, the Golan Heights, an undivided Jerusalem, settlement blocs, and hilltops, and for moving the security barrier eastward.

On January 4, 2006, Sharon suffered an incapacitating stroke. In a peaceful transition under the terms of Basic Law Article 16 (b), Deputy Prime Minister Olmert became Acting Prime Minister. On January 16, Olmert became acting chairman of Kadima.

The Hamas victory in the January 25 Palestinian parliamentary elections rapidly became an Israeli election issue, even though all parties agreed that Israel should not negotiate with Hamas. On March 8, Olmert he revealed plans for further unilateral

---

[6] For Kadima's Action Plan, see [http://kadimasharon.co.il/15-en/Kadima.aspx].

withdrawals from the West Bank and said that he would reallocate funds from settlements to the Negev, the Galilee, and Jerusalem. Although Olmert declared that he prefers negotiations, if they do not develop in a "reasonable time," then he would proceed with what he called "convergence," or merging of settlements east of the security barrier with large settlement blocs that will be west of the barrier.[7] Netanyahu charged that the unreciprocated, unilateral withdrawal from Gaza had rewarded terrorists and contributed to the Hamas win. He criticized Olmert's plan as another unilateral concession that would endanger Israel. Peretz proposed that Israel continue a dialogue with moderate Palestinians, not Hamas.

Current Government and Politics

Table 1. Parties in the Knesset, March 2006

Seats	Party	Orientation
29	Kadima	Centrist, Pro-disengagement
19	Labor	Leftist, Social-democrat
12	Likud	Rightist, Anti-disengagement
12	Shas	Sephardi Ultra-orthodox
11	Yisrael Beiteinu (Our Home Israel)	Russian-speakers, Nationalist, Secular, Against unilateral withdrawals, but for exchange of populations and territories to create 2 homogenous states
9	National Union (NU)/ National Religious Party (NRP)	Nationalist, Ashkenazi Orthodox, Seeks to annex the West Bank (Land of Israel) and transfer Palestinians to Jordan
7	Pensioners' (GIL)	Single-issue: guaranteed pensions for all; Supports unilateral withdrawal from West Bank
6	United Torah Judaism (UTJ)	Ashkenazi Orthodox, Anti-withdrawals
5	Meretz/Yahad	Leftist, Anti-occupation, Civil libertarian
4	United Arab List/Ta'al	Israeli-Arab, Islamist
3	Hadash	Israeli-Arab, Communist
3	Balad	Israeli-Arab

The March 28, 2006, Knesset election results were surprising in many respects. The voter turnout of 63.2% was the lowest ever. The contest was widely viewed as a referendum on Kadima's plans to disengage from the West Bank, but it also proved to be a vote on economic policies that many believed had harmed the disadvantaged. Kadima came in first, but by a smaller margin than polls had predicted. Labor, emphasizing socioeconomic issues, came in a respectable second. Kadima drained off supporters from Likud, which lost 75% of its votes from 2003. Likud's decline also was attributed personally to Netanyahu, whose policies as Finance Minister were blamed for social distress and whose opposition to unilateral disengagement proved to be unpopular with an increasingly pragmatic, non-ideological electorate.

[7] During his May 2006 meeting with President Bush at the White House, Olmert used "realignment" and not "convergence" as the English translation for his plan.

The Shas campaign specifically aimed at restoring child allowances for the large families of its constituents. Although it opposes disengagements, the party's spiritual leader has made rulings in the past that may allow Shas to accommodate Kadima's plans for the territories. Yisrael Beiteinu (Israel Our Home), a secular party appealing to Russian-speakers, wants borders that exclude Israeli Arabs and their land and include settlements; it opposes unilateral disengagement and the Road Map. The rightist NU/NRP drew support from settlers; it opposes all withdrawals from the West Bank, where it believes Jews have a biblical right to settle. The new Pensioners' Party (GIL) drew single-issue voters harmed by Netanyahu's policies as well as young protest voters. It did not elaborate its positions on other issues. The ultra-orthodox United Torah Judaism was part of the last Sharon government; it seeks increased child allowances and deferments for religious school students from the military. United Arab List, Hadash, and Balad — Israeli Arab parties — are not part of a new government but are expected to passively support any future disengagements.

Key New Cabinet Officers

Ehud Olmert	Prime Minister; Minister of Social Welfare	Kadima
Tzipi Livni	Vice Prime Minister; Minister of Foreign Affairs	Kadima
Shimon Peres	Vice Prime Minister; Negev and Galilee Development	Kadima
Amir Peretz	Deputy Prime Minister; Minister of Defense	Labor
Abraham Hirschson	Finance	Kadima
Meir Shitrit	(Acting) Minister of Justice; Housing	Kadima
Avi Dichter	Public Security	Kadima
Shaul Mofaz	Deputy Prime Minister; Minister of Transportation*	Kadima
Roni Bar-On	Interior	Kadima
Yuli Tamir	Education	Labor
Eli Yishai	Deputy Prime Minister; Minister of Industry, Trade, and Labor	Shas

*Also in charge of strategic dialogue with the United States.

On May 4, 2006, the Knesset (parliament) approved a new four-party coalition government of Prime Minister Ehud Olmert's Kadima Party, the Labor Party, the Pensioners' Party, and the ultra-orthodox Shas Party. It controls 67 out of 120 seats in the Knesset, has 25 cabinet ministers, and Dalia Itzik of Kadima is the first woman Speaker of the Knesset. The government's guidelines call for shaping permanent borders for a democratic state with a Jewish majority.[8] The government will strive to negotiate with the Palestinians, but it will act in the absence of negotiations. The guidelines also promise to narrow the social gap. Labor wanted Olmert to negotiate with Palestinian President Mahmud Abbas before deciding on a unilateral move. Shas joined the coalition without agreeing to

[8] For the entire text of the government guidelines, see [http://www.mfa.gov.il/MFA/Government/Current+Government+of+Israel/Basic%20Guidelines%20of%20the%2031st%20Government%20of%20Israel].

evacuate West Bank settlements as specified in the guidelines and will decide on the issue when it is on the government agenda.

Israel's 1.2 million Russian language speakers do not have a minister is the cabinet, although there were several elected to parliament on the Kadima list as well as on the opposition Yisrael Beiteinu list.

Olmert had counted on the support of Meretz from outside of the coalition to support legislation to support a unilateral "realignment" in the West Bank. However, Meretz party leader Yosi Beilin declared on June 28 that his party would oppose realignment because it prefers a negotiated agreement with Palestinian Authority (PA) President Mahmoud Abbas in order for Israel to obtain international recognition of new borders and Jerusalem as its capital.

Economy

Overview

Israel has an advanced industrial, market economy in which the government plays a substantial role. Most people enjoy a middle class standard of living. Per capita income is on par with some European Union members. Despite limited natural resources, the agricultural and industrial sectors are well developed. An advanced high tech sector includes aviation, communications, computer-aided design and manufactures, medical electronics, and fiber optics. Israel greatly depends on foreign aid and loans and contributions from the Jewish diaspora. After economic declines in 2001 and 2002 due to the effects of the Palestinian *intifadah* (uprising) on tourism and to the bursting of the global high-tech bubble, Israel's economy recovered. Before the 2006 war in Lebanon, most economic indicators were positive: inflation low, employment and wages rising, and the standard of living rising.

Basic Facts	
Population	6,276,883 (2005.)
Population Growth Rate	1.2% (2005 est.)
Ethnic Groups	— Jewish 80.1% (1996)
	— non-Jewish (mostly Arab) 19.9% (1996)*
GDP Growth Rate	5.2 (2005 est.)
GDP Per Capita	$22,200 (2005 est.)
Inflation Rate	1.3% (2005 est.)
Unemployment Rate	8.9% (2005 est.)
Ratio of debt to GDP	101% (2005 est.)
Foreign Debt	$74.46 billion (2004 est.)
Imports	crude oil, grains, raw materials, military equipment
Exports	cut diamonds, high-technology equipment, fruits and vegetables
Main Trading Partners	United States, Belgium, Germany, United Kingdom
Sources: CIA, *The World Factbook*, January 2006; and the Israeli government.	
*Within 1967 borders.	

Under Former Finance Minister Netanyahu, the gov-

ernment attempted to liberalize the economy by controlling government spending, reducing taxes, and resuming privatization of state enterprises. The chronic budget deficit decreased, while the country's international credit rating was raised, enabling a drop in interest rates. However, Netanyahu's critics suggested that cuts in social spending widened the national income gap and increased the underclass. According to Israel's National Insurance Institute, 20% of all Israelis and 30% of Israeli children live below the poverty line.

Israel has a budget deficit target of 3% of gross domestic product, and the government is allowed by law to raise the annual budget by only 1.7%. Olmert vowed not to increase the deficit while lessening the social gap. The coalition agreement calls for raising the minimum wage to $1,000 a month by the end of the Knesset session, canceling a 1.5% pension cut of the Netanyahu era, guaranteeing a pension for all workers, and increasing spending on heath care, child allowances, daycare, and other socioeconomic programs.

Current Issues

The 2006 budget was not approved before the dissolution of the last parliament; therefore spending remained at 2005 levels from January through May and a budget surplus accrued due to the low expenditures and higher than expected tax revenues. The surplus was expected to enable the new government to spend more on social programs. Finance Minister Hirschson proposed a budget cut of 1 billion New Israeli Shekels (NIS) (U.S.$224 million) for 2006, of which NIS 510 million (U.S.$114 million) was to be taken from defense and none from social programs. The Knesset passed the budget on June 7 by a vote of 53 to 22, with 45 abstentions. Some Labor MKs objected to cuts in bread subsidies, failure to address the pension issue, and defense cuts, but voted for the budget to sustain the coalition. Likud, Meretz, and the Arab parties voted against the bill. UTJ, Israeli Beiteinu, and NU-NRP abstained after the government pledged to support organizations they champion.

In the end, the defense budget was not cut due to military expenditures for the war in Lebanon. On August 31, the Knesset Finance Committee passed a 6% across-the-board cut (totaling about $450 million) for all ministries, except defense and social welfare. The direct cost of the war is estimated to be about $3 billion. After the war, the Israeli Bureau of Statistics projected a 4.5% GDP growth rate for 2006 (compared to 5.2% in 2005) due economic losses resulting from the closure of industrial plants in northern Israel, inability to work on agriculture in that region, attendant business, property, and tax losses, and the loss of tourism revenues.

On September 12, the cabinet approved the 2007 budget. Only Shas voted against it. Labor Leader Peretz abstained over a minimum wage issue, but other Labor ministers disagreed with his assessment and voted for the budget.

Foreign Policy

Middle East

Iran. Israeli officials state that Iran will pose an existential threat to Israel if it achieves nuclear capability. Ayatollah Khomeini, founder of Iran's Islamic revolution, decreed that the elimination of Israel is a religious duty. President Mahmud Ahmadinejad quoted Khomeini when he called for Israel to be "wiped off the map," has described the Holocaust as a "myth" used as a pretext to create an "artificial Zionist regime," and suggested that Europe, the United States, or Canada donate land for a Jewish state. He repeatedly makes virulently anti-Israel statements. Iran has a missile, the Shahab-3, capable of delivering a warhead to Israel. Israeli officials have called on the international community to thwart Iran's nuclear ambitions in order to avert the need for Israel to act as it did against Iraq's reactor at Osirak in 1981.

When U.S. Vice President Dick Cheney warned in early 2005 that Israel might act pre-emptively against Iran, Israel's then Defense Minister Shaul Mofaz countered, urging a U.S. pre-emptive strike. Israel has nuclear weapons, and the prospect of a counterattack is seen by many as a deterrent against an Iranian attack. On January 17, 2006, then Acting Prime Minister Olmert said, "Under no circumstances ... will Israel permit anyone who harbors evil intentions against us to possess destructive weapons that can threaten our existence." He added, "Israel acted, and will continue to act, in cooperation and consultation with ... international elements."[9] On April 23, he told the cabinet, "our position has always been that it would not be correct to focus on us as the spearhead of the global struggle as if it were our local, individual problem and not a problem for the entire international community. The international struggle must be led and managed by — first and foremost — the US, Europe, and the UN institutions. We are not ignoring our need to take ... steps in order to be prepared for any eventuality."[10]

On May 23, 2006, Israeli Chief of Staff Dan Halutz said that, according to intelligence estimates, Iran would be in possession of nuclear weapons by 2008-2010. He also noted that U.S. assessments predicted that Iran would not develop the bomb before 2010-2015, but that Israel must prepare for the possibility of a more imminent threat.[11]

Iran also provides financial, political, and/or military support to the Lebanese Hezbollah as well as to Hamas, Palestinian Islamic Jihad (PIJ), the Al Aqsa Martyrs' Brigades, and the Popular Front for the Liberation of Palestine-General Command — Palestinian terrorist groups seeking to obstruct the peace process and destroy

---

[9] "PM Olmert, President Qatzav Discuss Iran, Peace Process During News Conference," Open Source Center Document FEA20060117017385, January 17, 2006.

[10] "23 Apr Cabinet Session; Daily Says Olmert Readying for 'Swift' Convergence," Open Source Center, Document GMP20060424621005, Jerusalem Government Press Office, April 23, 2006.

[11] *Ha'aretz* report, May 24, 2006.

Israel. In January 2006, then Defense Minister Mofaz charged that Iran had financed a PIJ suicide bombing in Tel Aviv and Israeli officials blamed Iran for Hezbollah's attack on northern Israel in July 2006.

Palestinian Authority. During the Oslo peace process of the 1990's, Israelis and Palestinians negotiated a series of agreements that resulted in the creation of a Palestinian Authority (PA) with territorial control over parts of the West Bank and the Gaza Strip. Israel refused to deal with the late Palestinian leader Yasir Arafat after Sharon came to power and during the *intifadah* or Palestinian uprising against Israeli occupation. Israel's relations with the PA and its leaders improved somewhat after Arafat's death in November 2004 and the election of Mahmud Abbas as President of the PA in January 2005. Sharon and Abbas met at a summit in Sharm al-Shaykh, Egypt, in February, and promised to end violence and to take other measures. Israel made some goodwill gestures toward the PA, and President Abbas and 13 Palestinian factions agreed to an informal truce. However, Sharon and Abbas did not meet after June 2005. Although Israeli officials described the disengagement from the Gaza Strip as unilateral, they met with Palestinian counterparts to coordinate security and disposition of assets.

Israel still has 242 settlements, other civilian land use sites, and 124 unauthorized settlement outposts in the West Bank and 29 settlements in East Jerusalem — all areas that the Palestinians view as part of their future state. Israel retains military control over the West Bank and is building a security barrier on West Bank territory to separate Israelis and Palestinians and prevent terrorists from entering Israel. Palestinians object to the barrier being built on their territory. The barrier is taking the form of a future border between Israel and Palestine and will cut Palestinians off from East Jerusalem.

The Israeli government accepted the Roadmap, the framework for a peace process leading to a two-state solution developed by the United States, European Union, U.N., and Russia, reluctantly and with many conditions. Sharon contended that the Roadmap requires that the PA first fight terror, by which he meant disarm militants and dismantle their infrastructure. Abbas preferred to include terrorist groups such as Hamas in the political system and refused to disarm them prior to January 2006 parliamentary elections. Hamas's victory in those elections created policy dilemmas for Israel and the international community. Israel demanded that Hamas abrogate its Covenant that calls for the destruction of Israel, disarm and disavow terrorism, and accept all prior agreements with Israel as preconditions for relations with a Hamas-led PA.

Israel officially refuses to negotiate with Hamas for the return of the Israeli soldier kidnaped from a post at Kerem Shalom, Israel, near the Gaza Strip on June 25, 2006. Since the kidnaping, Israel has arrested many members of the Hamas-led PA government and legislature for participating in a terrorist group, and Israeli forces have been conducting military operations against Hamas and other militant groups in the Gaza Strip as well as in the West Bank. Egyptian officials are attempting to mediate a resolution that would involve a prisoner exchange. Analysts believe that this effort may be complicated by the need to have a deal acceptable to Hamas political bureau head Khalid Mish'al, who is based in Damascus and more subject

to influence by the Syrian and Iranian governments, more than President Mahmud Abbas or Prime Minister Ismail Haniyah of Hamas.

Egypt. After fighting four wars in as many decades, Israel and Egypt signed a peace treaty in 1979. In 1982, Israel withdrew from the Sinai Peninsula, which it had taken in the 1967 war. Egypt and Israel established diplomatic relations, although Egypt withdrew its ambassador during the four years of the second *intifadah*, 2001-2005, because it objected to Israel's "excessive" use of force against the Palestinians. Some Israelis refer to their ties with Egypt as a "cold peace" because full normalization of relations, such as enhanced trade, bilateral tourism, and educational exchanges, has not materialized. Egyptian President Hosni Mubarak has visited Israel only once — for the funeral of former Israeli Prime Minister Yitzhak Rabin. Outreach is often one way, from Israel to Egypt. Egyptians say that they are reluctant to engage because of Israel's continuing occupation of Arab lands. Israelis are upset by some Egyptian media and religious figures' anti-Israeli and occasionally anti-Semitic rhetoric. Nonetheless, the Egyptian government often plays a constructive role in the Arab-Israeli peace process, hosting meetings and acting as a liaison. In March 2005, it helped secure an informal Palestinian truce and later helped prevent it from breaking down due to violence between Palestinian factions and Israel and between Palestinian security forces and factions. As noted above, Egyptians have been trying to secure the release of a kidnaped Israeli soldier being held by Hamas militants.

Since the January 2006 Hamas election victory, Egyptian officials have unsuccessfully urged the group to accept a 2002 Arab League declaration that offers Israel recognition within its 1967 borders. On June 4, President Mubarak and Prime Minister Olmert had a very cordial meeting. Mubarak praised Olmert as a man of "vision and credibility," while Olmert reciprocated with compliments and pledged to work closely with Mubarak to advance the peace process.

Egypt deployed 750 border guards to secure the Gaza-Egyptian border after Israel's disengagement from Gaza. After one year, the two sides will jointly evaluate the mission. Israel refused an Egyptian request to deploy military border guards, instead of police, for greater control of smuggling along the entire border in Sinai, which some Israelis argue would require a change in the military appendix of the 1979 peace treaty.

In December 2004, Egypt and Israel signed a Qualified Industrial Zone (QIZ) Agreement under which jointly produced goods enter the U.S. market duty free as part of the U.S.-Israeli Free Trade Agreement (FTA). As a result of the QIZ, Israeli exports to Egypt grew 110% in 2005. On June 30, 2005, Israel signed a memorandum of understanding to buy 1.7 billion cubic feet of Egyptian natural gas for an estimated U.S.$2.5 billion over 15 years, fulfilling a commitment made in an addendum to the 1979 peace treaty. The deal includes cooperation in construction of the infrastructure and may expand to other energy areas. Gas is not expected to flow before 2007.[12]

---

[12] See also CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy Sharp.

Jordan. Israel and Jordan signed a peace treaty in October 1994 and exchanged ambassadors, although Jordan did not have an ambassador in Israel during most of the *intifadah*. Relations have developed with trade, cultural exchanges, and water-sharing agreements. Since 1997, Jordan and Israel have collaborated in creating 13 qualified industrial zones (QIZs) to export jointly produced goods to the United States duty-free under the U.S.-Israel Free Trade Agreement (FTA), although Jordanian companies are now said to prefer arrangements under the U.S.-Jordan FTA over the QIZ. Normalization of ties is not popular with the Jordanian people, over half of whom are of Palestinian origin, although King Abdullah II has attempted to control media and organizations opposed to normalization. Believing that a two-state solution to the Israeli-Palestinian conflict would contribute to regional stability, the King is very supportive of the peace process, wants the Roadmap to be implemented, and has hosted meetings between Israeli and Palestinian leaders.[13] He opposes unilateral Israeli steps in the West Bank, fearing that they would strengthen Palestinian radicals who could destabilize the region and undermine his regime. Abdullah met Olmert in Jordan on June 8, 2006.

Syria. Israel and Syria have fought several wars but, except for rare breaches, have maintained a military truce along their border for many years. Yet, they failed to reach a peace agreement in negotiations that ended in 2000. Since 1967, Israel has occupied Syria's Golan Heights and, in December 1981, effectively annexed it by applying Israeli law there. There are 42 Israeli settlements on the Golan. Syrian President Bashar al-Asad has said that he wants to hold peace talks with Israel, but Israeli officials demand that he first cease supporting the Lebanese Hezbollah militia, which attacks Israeli forces in the disputed Shib'a Farms area of Lebanon and communities in northern Israel and aids Palestinian terrorist groups. They also want Asad to expel Palestinian rejectionist groups (i.e., those who do not agree with the Israeli-Palestinian peace process). Sharon said that the Golan is essential for Israel's security and discussion of withdrawal would be a mistake.[14]

After Syria was implicated in the February 2005 assassination of former Lebanese Prime Minister Rafiq Hariri, international pressure on the Asad regime mounted. Israeli officials have said that Israel is not interested in the fall of the regime, only in changing its policies. Some reportedly fear that anarchy or extreme Islamist elements might follow Asad and prefer him to stay in power in a weakened state. On December 1, 2005, Sharon said that nothing should be done to ease U.S. and French pressure on Syria, implying that Syrian-Israeli peace talks would do that. His successor, Olmert has indicated that talks with Syria are not on his agenda and has blamed Damascus for Palestinian terror attacks in Israel.

Syria hosts Hamas political bureau chief Khalid Mish'al and supplies Hezbollah with Syrian and Iranian weapons. After the June 25, 2006, Palestinian attack on

---

[13] See also CRS Report RL33546, *Jordan: U.S. Relations and Bilateral Issues*, by Alfred Prados and Jeremy M. Sharp; and CRS Report RS22002, *Qualifying Industrial Zones in Jordan: A Model for Promoting Peace and Development in the Middle East?* by Mary Jane Bolle, et al.

[14] See also CRS Report RL33487, *Syria: U.S. Relations and Bilateral Issues*, by Alfred Prados.

Israeli forces and kidnaping of an Israeli soldier, Israeli officials specifically requested the United States to exert pressure on President Asad to induce him to expel Mish'al, whom they believed was responsible for the operation. After Hezbollah abducted two Israeli soldiers from northern Israel on July 12, sparking a major Israeli military campaign against Hezbollah in Lebanon, some rightwing Israeli politicians demanded that it be expanded to include Syria. However, the government and military did want to open a third front. U.S. officials demanded that Syria exert its influence on Hezbollah to end the conflict, but Syrian officials unsuccessfully sought a broad resolution that would include a revival of a peace process to produce the return of the Golan Heights.

Lebanon.[15] Israeli forces invaded Lebanon in 1982 to prevent Palestinian attacks on northern Israel. The forces gradually withdrew to a self-declared nine-mile "security zone," north of the Israeli border. Peace talks in the 1990's failed to produce a peace treaty, mainly because of Syria's insistence that it reach an accord with Israel first. Israel unilaterally withdrew from southern Lebanon on May 25, 2000. Lebanon insists that the Israeli withdrawal is incomplete because of the continuing presence of Israeli forces in the Shib'a Farms area, in the region where Lebanon, Syria, and Israel meet. The U.N. said that Israel's withdrawal from Lebanon was complete and treats the Shib'a Farms as part of Syria's Golan Heights occupied by Israel. Syria verbally recognizes that Shib'a is part of Lebanon, but will not demarcate the border officially as long the Israeli occupation continues. Hezbollah took control of the former "security zone" after Israeli forces left and attacked Israeli forces in Shib'a and northern Israeli communities. The Lebanese government considers Hezbollah to be a legitimate resistance group and a political party represented in parliament. Israel views it as a terrorist group.

Hezbollah's kidnaping of two Israeli soldiers on July 12, 2006, provoked Israel to launch a major military campaign against Hezbollah in Lebanon. In a July 17 speech to the Knesset, Prime Minister Olmert said that military operations would end with the return of the kidnaped soldiers, the end to Hezbollah rocket attacks into northern Israel, and the deployment of the Lebanese army along the Israeli-Lebanese border to replace Hezbollah units. Hezbollah demands a prisoner swap, i.e., that the Israeli soldiers be exchanged for Lebanese and other Arab prisoners in Israel. The war ended with a cessation of hostilities on August 14. Israeli forces withdrew as their positions were assumed by the Lebanese army and an enlarged U.N. Interim Forces in Lebanon (UNIFIL). Hezbollah has maintained the cease-fire, but it also has not released the abducted soldiers. U.N. Secretary General Kofi Annan has appointed a "secret" mediator to facilitate a prisoner exchange.

Other. Aside from Egypt and Jordan, Israel has diplomatic relations with the majority-Muslim governments of Mauritania and Turkey and has had interest or trade offices in Morocco, Tunisia, Oman, and Qatar. The latter four suspended relations with Israel during the *intifadah*. Former Foreign Minister Silvan Shalom had predicted that relations with Arab and Muslim countries would improve due to Israel's disengagement from Gaza. The first diplomatic breakthrough was his

---

[15] See also CRS Report RL33509, *Lebanon*; and CRS Report RL31078, *The Shib'a Farms Dispute and Its Implications*, both by Alfred Prados.

September 1, 2005, meeting in Istanbul with the Pakistani foreign minister, although Pakistani officials asserted that they would not recognize Israel until an independent Palestinian state is established. On September 14, Pakistan's President Pervez Musharraf shook Prime Minister Sharon's hand in a "chance" meeting at the U.N. summit in New York. In October, Pakistan agreed to accept Israeli humanitarian aid after a devastating earthquake. Shalom also met the Indonesian, Qatari, Algerian, Moroccan, and Tunisian foreign ministers at the U.N.

Also in September 2005, Bahrain ended its economic boycott of Israel, a move required by the World Trade Organization and the Bahrain-U.S. Free Trade Agreement, but it has vowed not to normalize relations. Tunisian President Zine El Abidine Ben Ali sent a personal letter to Sharon, praising his "courageous" withdrawal from Gaza. Shalom attended the World Summit on the Information Society in Tunisia in November.

Israel has developed good relations with the predominantly Muslim former Soviet republic of Azerbaijan, which supplies about one-sixth of Israel's oil needs.

European Union

Israel has complex relations with the European Union (EU). Many Europeans believe that the Israeli-Palestinian conflict is a root cause of terrorism and Islamist extremism among their own Muslim populations and want it addressed urgently. The EU has ambitions to exert greater influence in the Middle East peace process. The EU is a member of the "Quartet," with the United States, U.N., and Russia, which developed the Roadmap. EU officials appeared to share Palestinian suspicions that Sharon's disengagement plan meant "Gaza first, Gaza only" and would not lead to the Roadmap process. They observed with concern Israel's ongoing settlement activity and construction of the security barrier in the West Bank, which, according to the Europeans, contravene the Roadmap and prejudge negotiations on borders.

Israel has been cool to EU overtures because it views many Europeans as biased in favor of the Palestinians and hears some Europeans increasingly question the legitimacy of the State of Israel. Some Israelis contend that the basis of such views is an underlying European anti-Semitism. Nonetheless, in November 2005, Israel agreed to allow the EU to maintain a Border Assistance Mission (EU-BAM) to monitor the reopened Rafah crossing between the Gaza Strip and Egypt. After the war in Lebanon, Israel also urged and welcomed the strong participation of European countries in the peacekeeping force there.

To Israel's dismay, some EU representatives met local Hamas leaders elected in December 2004 in order to oversee EU-funded local projects. The EU also authorized its monitoring mission for the January 2006 Palestinian parliamentary elections to contact the full range of candidates, including Hamas, in order to carry out its task. EU officials have said, however, that Hamas will remain on the EU terror list until it commits to using nonviolent means to solve the Israeli-Palestinian conflict. The EU agrees with the Quartet's preconditions for relations with the Hamas-led government: disavowal of violence, recognition of Israel, and acceptance of prior Israeli-Palestinian accords. The EU has developed, at the Quartet's request,

a temporary international mechanism to aid the Palestinian people directly while bypassing the government.

Israel also demands that the EU include Hezbollah on its list of terrorist organizations and has protested meetings between European ambassadors and the Hezbollah ministers in the Lebanese cabinet.

Israel participates in the EU's Euro-Mediterranean Partnership Initiative, otherwise known as the Barcelona Process, and in the European Neighborhood Policy (ENP). And EU countries combined are Israel's second trading partner, but the EU bans imports from Israeli settlements in the occupied territories.[16]

Relations with the United States

Overview

On May 14, 1948, the United States became the first country to extend de facto recognition to the State of Israel. Over the years, the United States and Israel have developed a close friendship based on common democratic values, religious affinities, and security interests. Relations have evolved through legislation; memorandums of understanding; economic, scientific, military agreements; and trade.

Issues

Peace Process. The United States has been the principal international proponent of the Arab-Israeli peace process. President Jimmy Carter mediated the Israeli-Egyptian talks at Camp David which resulted in the 1979 peace treaty. President George H.W. Bush together with Soviet President Mikhail Gorbachev convened the peace conference in Madrid in 1990 that inaugurated a decade of unprecedented negotiations between Israel, Jordan, Syria, Lebanon, and the Palestinians. President Clinton continued U.S. activism throughout his tenure in office, facilitated a series of agreements between Israel and the Palestinians as well as the Israeli-Jordanian peace treaty in 1994, hosted the Israeli-Palestinian summit at Camp David in 2000 that failed to reach a peace settlement, and sought unsuccessfully to mediate between Israel and Syria during the same year.

In June 2002, President George Bush outlined his vision of a democratic Palestine to be created alongside Israel in a three-year process.[17] U.S., European Union, Russian, and U.N. representatives built on this vision to develop the international Roadmap to a Permanent Two-State Solution to the Israeli Palestinian

---

[16] See CRS Report RL31956, *European Views and Policies Toward the Middle East*, by Kristin Archick.

[17] See [http://www.whitehouse.gov/news/releases/2002/06/20020624-3.html] for text of President's speech.

Conflict. The Administration remains committed to the Roadmap process despite the parties' failure to implement it.[18]

Secretary of State Condoleezza Rice has not named a Special Middle East Envoy and said that she would not get involved in direct Israeli-Palestinian negotiations of issues and preferred to have the Israelis and Palestinians work together. However, she has traveled to the region several times and personally mediated an accord to secure the reopening of the Rafah crossing between Gaza and Egypt in November 2005. The Administration had supported Israel's disengagement from Gaza mainly as a way to return to the Road Map. Some Israelis criticized U.S. insistence that the Palestinian elections proceed in January 2006, with Hamas participating, which produced a Hamas-led government. The Administration agrees with Israel's preconditions for dealing with that government.

On May 23, 2006, Prime Minister Olmert met President Bush at the White House. Although the President stated his preference for negotiating a two-state solution to the Israeli-Palestinians conflict, he also said that Olmert's ideas for unilaterally removing Israeli settlements from the West Bank in the absence of negotiations were "bold."

All recent U.S. Administrations have disapproved of Israel's settlement activity as prejudging final status issues and possibly preventing the emergence of a contiguous Palestinian state. On April 14, 2004, however President Bush noted the need to take into account changed "realities on the ground, including already existing major Israeli population centers" (i.e., settlements), asserting "it is unrealistic to expect that the outcome of final status negotiations will be full and complete return to the armistice lines of 1949."[19] He later emphasized that it was a subject for negotiations between the parties.

The Administration has insisted that U.N. Security Council resolutions be "balanced," by criticizing Palestinian as well as Israeli violence and has vetoed resolutions which do not meet that standard.

Since taking East Jerusalem in the 1967 war, Israel has maintained that Jerusalem is its indivisible, eternal capital. Few countries agree with this position. The U.N.'s 1947 partition plan called for the internationalization of Jerusalem, while the Declaration of Principles signed by Israel and the Palestine Liberation Organization in September 1993 says that it is a subject for permanent status negotiations. U.S. Administrations have recognized that Jerusalem's status is unresolved by keeping the U.S. Embassy in Tel Aviv. However, in 1995, Congress mandated that the embassy be moved to Jerusalem,[20] and a series of presidential waivers of penalties for non-compliance have delayed the move. U.S. legislation has granted Jerusalem status as a capital in particular instances and sought to prevent U.S. official recognition of Palestinian claims to the city. The failure of the State

---

[18] See [http://www.state.gov/r/pa/prs/ps/2003/20062.htm]for text of Roadmap.

[19] For text of Bush letter to Sharon, see [http://www.whitehouse.gov].

[20] P.L. 109-102, November 14, 2005.

Department to follow congressional guidance on Jerusalem prompted a response in H.R. 2601, the Foreign Relations Authorization bill, passed in the House on July 20, 2005.[21] The Senate did not pass an authorization bill, and it did not become law.[22]

The United States has never recognized Israel's annexation of the Golan Heights, which it views as a violation of international law. However, the current administration has not attempted to revive Israeli-Syrian peace talks.

Some Israeli officials have questioned possible unintended consequences of the U.S. democratization policy in the Middle East, believing that it is aiding extremist organizations to gain power positions and to be legitimized. Alarmed, they cite the examples of Hezbollah in Lebanon, Hamas in the Palestinian Authority, and the Muslim Brotherhood in Egypt.[23]

Trade and Investment. Israel and the United States concluded a Free Trade Agreement in 1985, and all customs duties between the two trading partners have since been eliminated. The FTA includes provisions that protect both countries' more sensitive agricultural sub-sectors with non-tariff barriers, including import bans, quotas, and fees. Israeli exports to the United States have grown 200% since the FTA became effective. As noted above, qualified industrial zones in Jordan and Egypt are considered to be part of the U.S.-Israeli free trade area. The United States is Israel's main trading partner, while Israel ranks about 20th among U.S. trading partners. In 2005, the United States imported $23.8 million in goods from Israel and exported $27.1 million in goods to Israel.

U.S. companies have made large investments in Israel. In July 2005, the U.S. microchip manufacturer Intel announced that it would invest $4.6 billion in its Israeli branch; Israel provided a grant of 15% of an investment of up to $3.5 billion or $525 million to secure the deal. In May 2006, prominent U.S. investor Warren Buffet announced that he was buying 80% of Iscar, a major Israeli metalworks, for $4 billion.

On July 26, the House passed H.R. 2730, the United States-Israel Energy Cooperation Act. It would authorize a grant program of $20 million for each of fiscal years 2006 through 2012 to fund joint ventures between U.S. and Israeli businesses

---

[21] H.R. 2601 (d) requires that "accurate entries be made on request of citizen." Specifically, for the purpose of the issuance of a passport to a U.S. citizen born in Jerusalem, the Secretary of State shall upon the request of the citizen or the citizen's legal guardian, record the place of birth as Israel. See also CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy* , by Carol Migdalovitz; and CRS Report RL33000, *Foreign Relations Authorization, FY2006 and FY2007: An Overview*, coordinated by Susan Epstein.

[22] In August 2006, El Salvador notified the Israeli Foreign Ministry that it was moving its embassy from Jerusalem to Tel Aviv. When that happens, no country that has diplomatic relations with Israel will have an embassy in Jerusalem.

[23] For example, head of military intelligence, Maj. Gen. Amos Yadlin, in Ahiya Raved, "Intelligence Chief: Strategic Threats on Israeli Rising," *Ynetnews*, June 20, 2006, Open Source Center Document GMP20060621746004.

and academics for research, development, or commercialization of alternative energy, improved energy efficiency, or renewable energy sources. S. 1862, the Senate version of the bill, was referred to the Senate Foreign Relations Committee on October 7, 2005.

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

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

Congress has legislated other special provisions regarding aid to Israel. Since the 1980s, ESF and FMF have been provided as all grant cash transfers, not designated for particular projects, and have been transferred as a lump sum in the first month of the fiscal year, instead of in periodic increments. Israel is allowed to spend about one-quarter of the military aid for the procurement in Israel of defense articles and services, including research and development, rather than in the United States. Finally, to help Israel out of its economic slump, P.L. 108-11, April 16, 2003, provided $9 billion in loan guarantees over three years, use of which has since been extended to 2008 and may be extended further. As of September 2006, $4.5 billion of the guarantees remain unexpended.[24]

Security Cooperation. Although Israel is frequently referred to as an ally of the United States, the two countries do not have a mutual defense agreement. Even though there is no treaty obligation, on February 1, 2006, President Bush stated that the United States would defend Israel militarily.[25] In May, the President told Prime

---

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

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

Minister Olmert, "In the event of any attack on Israel, the United States will come to Israel's aid."[26]

On November 30, 1981, U.S. Secretary of Defense Caspar Weinberger and Israeli Minister of Defense Ariel Sharon signed a memorandum of understanding (MOU), establishing a framework for continued consultation and cooperation to enhance the national security of both countries. In November 1983, the two sides formed a Joint Political Military Group, (JPMG) which meets twice a year, to implement most provisions of the MOU. Joint air and sea military exercises began in June 1984, and the United States has constructed facilities to stockpile military equipment in Israel. In 2001, an annual interagency strategic dialogue, including representatives of diplomatic, defense, and intelligence establishments, was created to discuss long-term issues. In 2003, reportedly at the U.S. initiative due to bilateral tensions related to Israeli arms sales to China, the talks were suspended. (See *Military Sales*, below.) After the issue was resolved, the talks resumed at the State Department on November 28, 2005, and reportedly focused on Syria and democratization in the Arab world. On January 11, 2006, the JPMG convened in Tel Aviv also for the first time since 2003.

On May 6, 1986, Israel and the United States signed an agreement (the contents of which are secret) for Israeli participation in the Strategic Defense Initiative (SDI/"Star Wars"). Under SDI, Israel is developing the "Arrow" anti-ballistic missile with a U.S. financial contribution so far of more than $1 billion and increasing annually. The system became operational in 2000 in Israel and has been tested successfully, most recently on December 2, 2005, when it shot down a missile simulating an Iranian Shahab-3 that can be armed with nuclear warheads and reach Israel. P.L. 109-148, December 30, 2005, the Defense Appropriations Act, Section 8088, provides $132,866,000 for the Arrow program, of which $60,250,000 is earmarked for missile component co-production and $10,000,000 is earmarked for a joint feasibility study on a Short Range Ballistic Missile Defense initiative.

In 1988, under the terms of Sec. 517 of the Foreign Assistance Act of 1961, as amended, Israel was designated a "major non-NATO ally," affording it preferential treatment in bidding for U.S. defense contracts and access to expanded weapons systems at lower prices. Israel participates in NATO's Mediterranean Dialogue, its Istanbul Cooperative Initiative, and in Operation Active Endeavor monitoring the Mediterranean Sea to thwart terrorism.

After the war in Lebanon ended in August 2006, the State department Office of Defense Trade Controls began to investigate whether Israel's use of U.S.-made cluster bombs violated agreements that restrict use of the weapons to military targets.

Other Current Issues

Military Sales. Israel accounts for about 10% of the world's defense exports, totaling $3.5 billion in 2004. The United States and Israel have regularly discussed

---

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

Israel's sale of sensitive security equipment and technology to various countries, especially China. Israel reportedly is China's second major arms supplier, after Russia.[27] U.S. administrations believe that such sales are potentially harmful to the security of U.S. forces in Asia. In 2000, the United States persuaded Israel to cancel the sale of the Phalcon, an advanced, airborne early-warning system, to China. More recently, Israel's agreement to upgrade Harpy Killer unmanned aerial vehicles (UAVs) that it sold to China in 1999 angered the Department of Defense (DOD). China tested the weapon over the Taiwan Strait in 2004. DOD suspended technological cooperation with the Israel Air Force on the future F-35 Joint Strike Fighter (JSF) aircraft as well as several other cooperative programs, held up shipments of some military equipment, and refused to communicate with the Israeli Defense Ministry Director General, whom Pentagon officials believed had misled them about the Harpy deal.

On August 17, 2005, the U.S. DOD and the Israeli Ministry of Defense issued a joint press statement reporting that they had signed an understanding "designed to remedy problems of the past that seriously affected the technology security relationship and to restore confidence in the technology security area. In the coming months additional steps will be taken to restore confidence fully."[28] According to the Israeli newspaper *Ha'aretz*, Israel will continue to voluntarily adhere to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, without actually being a party to it. On November 4, in Washington, Defense Minister Mofaz announced that Israel would again participate in the F-35 JSF project and that the crisis in relations was over. In March 2006, the new Defense Ministry Director General Jacob Toren said that an interagency process had begun approving marketing licenses for Israeli firms to sell selected dual-use items and services to China, primarily for the 2008 Olympic Games, on a case-by-case basis.

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

Espionage-Related Cases. In November 1985, Jonathan Pollard, a civilian U.S. naval intelligence employee, and his wife were charged with selling classified documents to Israel. Four Israeli officials also were indicted. The Israeli government claimed that it was a rogue operation. Pollard was sentenced to life in prison and his wife to two consecutive five-year terms. She was released in 1990, moved to Israel, and divorced Pollard. Israelis complain that Pollard received an excessively harsh sentence. Israel granted him citizenship in 1996, and he remains a cause celebre in Israel. Israeli officials repeatedly raise the Pollard case with U.S. counterparts, but

---

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

[28] "U.S. Israel Agree to Consult on Future Israeli Weapons Sales - Nations Affirm Joint Commitment to Address Global Security Challenges," U.S. State Department Press Release, August 17, 2005.

no formal request for clemency is pending.[29] Pollard's Mossad handler Rafi Eitan, now 79 years old, is head of the Pensioners' Party and a member of the current government. On June 8, 2006, the Israeli High Court of Justice refused to intervene in efforts to obtain Pollard release.

On June 13, 2005, U.S. Department of Defense analyst Lawrence Franklin was indicted for the unauthorized disclosure of classified information (about Iran) to a foreign diplomat. Press reports named Na'or Gil'on, a political counselor at the Israeli Embassy in Washington, as the diplomat. Gil'on has not been accused of wrongdoing and returned to Israel. Then Foreign Minister Silvan Shalom strongly denied that Israel was involved in any activity that could harm the United States, and Israel's Ambassador to the United States declared that "Israel does not spy on the United States." Franklin had been charged earlier on related counts of conspiracy to communicate and disclose national defense information to "persons" not entitled to receive it. On August 4, 2005, two former officials of the American Israel Political Action Committee (AIPAC), Steven J. Rosen and Keith Weissman, whom AIPAC fired in April 2005, were identified as the "persons" and indicted for their parts in the conspiracy. Both denied wrongdoing. On October 24, their attorneys asked the court to summon Israeli diplomats to Washington for testimony. On January 20, 2006, Franklin was sentenced to 12 years, 7 months in prison.

Rosen and Weissman are the first nongovernment employees ever to be indicted under the 1917 Espionage Act for receiving classified information orally; they argue that they were exercising protected free speech and the law was designed to punish government officials. In August, a judge ruled that "the rights protected by the First Amendment must at times yield to the need for national security." However, he required the government to establish that national security is genuinely at risk and that those who wrongly disclosed the information knew that disclosure could harm the nation.

Intellectual Property Protection. The "Special 301" provisions of the Trade Act of 1974, as amended, require the U.S. Trade Representative (USTR) to identify countries which deny adequate and effective protection of intellectual property rights. In April 2005, the USTR elevated Israel from its "Watch List" to the "Priority Watch List" because it had an "inadequate data protection regime" and intended to pass legislation to reduce patent term extensions. The USTR singled out for concern U.S. biotechnology firms' problems in Israel and a persistent piracy affecting the U.S. copyright industry. In November 2005, U.S. Ambassador to Israel Richard H. Jones urged the Knesset to put Israel in line with Organizations for Economic Cooperation and Development (OECD) countries with copyright law. (Joining the OECD is an important Israeli foreign policy goal.) On December 15, then-Minister of Industry Olmert and then-USTR Rob Portman agreed to negotiations on the issue. On April 28, 2006, however, the USTR decided to keep Israel on the Priority Watch List due to continuing concern about copyright matters and about legislation Israel passed in December 2005 that weakened protections for

---

[29] See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, by Richard Best and Clyde Mark.

U.S. pharmaceutical companies.[30] As they had in 2005, Israeli officials criticized the USTR decision as discriminatory.

U.S. Interest Groups

An array of interest groups has varying views regarding Israel and the peace process. Some are noted below with links to their websites for information on their policy positions.

American Israel Public Affairs Committee: [http://www.aipac.org/]

American Jewish Committee:
[http://www.ajc.org/site/c.ijITI2PHKoG/b.685761/k.CB97/Home.htm]

American Jewish Congress: [http://www.ajcongress.org/]

Americans for Peace Now: [http://www.peacenow.org/]

Anti-Defamation League: [http://www.adl.org/]

Conference of Presidents of Major Jewish Organizations:
[http://www.conferenceofpresidents.org/]

The Israel Project:
[http://www.theisraelproject.org/site/c.hsJPK0PIJpH/b.672581/k.CB99/Home.htm]

Israel Policy Forum: [http://www.israelpolicyforum.org/]

New Israel Fund: [http://www.nif.org/]

Zionist Organization of America: [http://www.zoa.org/]

---

[30] For U.S. government explanation of Israel's listing on the Priority Watch List, see *Full Version of the 2006 Special 301 Report*, 04/28/2006, accessible at [http://www.ustr.gov]

Figure 1. Map of Israel

Source: Map Resources. Adapted by CRS. (K.Yancey 6/15/06).