

CRS Report for Congress

Israel: Background and Relations with the United States

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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. The Kadima Party placed first in the March 28, 2006, Knesset (parliament) election; Prime Minister Ehud Olmert formed a coalition government. The tenure of the government is now uncertain due to scandals involving Olmert, which led to a Kadima leadership primary. Israel has an advanced industrial, market economy with a large government role.

Israel's foreign policy is focused largely on its region, Europe, and the United States. It views Iran as an existential threat due to its nuclear ambitions and support for anti-Israel terrorists. Israel concluded peace treaties with Egypt in 1979 and Jordan in 1994, but not with Syria and Lebanon. Israel unilaterally withdrew from southern Lebanon in 2000. Hezbollah, which then took over the south, sparked a 34-day war when it kidnaped two Israeli soldiers in July 12, 2006. Israel negotiated a series of agreements with the Palestinians in the 1990s, but that process ended in 2000. Israel resumed talks with the Palestinian Authority (PA) in June 2007, after PA President Mahmud Abbas dissolved an Hamas-led unity government. On November 27, the international Annapolis Conference officially welcomed the renewed negotiations.

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 some issues, such as the Golan Heights, Jerusalem, and settlements. The Bush Administration and Congress supported Israel's 2006 military campaigns against Hezbollah and Hamas as acts of self-defense. The United States and Israel concluded a free-trade agreement in 1985. Israel is a prominent 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 will be updated as developments warrant. See also CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, CRS Report RS22768, *Israeli-Palestinian Peace Process: The Annapolis Conference*, and CRS Report RL33222, *U.S. Foreign Aid to Israel*.

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Most Recent Developments

Domestic Politics

On July 30, 2008, Ehud Olmert announced that he would resign as prime minister when his Kadima Party picks a new leader in September. The new party leader will have up to 42 days (28 days with a possible 14-day extension) to form a government – a difficult process given Israel's multi-party system. If the new leader cannot form a coalition, then early national elections will be held 90 days from the day that failure is announced or in early 2009. Olmert will head a caretaker government until a new one is formed.

While campaigning for the September 17 Kadima leadership primary, with the possibility of a run-off on September 25, Vice Prime Minister and Foreign Minister Tzipi Livni said that her goal was to form a national unity government with the Labor and Likud parties in order to advance the peace process. Her main opponent, Deputy Prime Minister, Transportation Minister, and former Chief of Staff Shaul Mofaz emphasized security. He called for a future coalition opposing negotiations with the Palestinians on core issues and favoring confidence-building and measures to revive the Palestinian economy, and criticized the cease-fire with Hamas in the Gaza Strip. Likud leader Benjamin Netanyahu demanded that national elections be held when the Olmert leaves office and declared that he would not join a Kadima-led coalition or a unity government before then.

Scandals

On July 11, Israeli prosecutors announced another corruption case against Prime Minister Olmert, alleging that he had fraudulently billed the government for foreign travel paid for by organizations when he was mayor of Jerusalem and Minister of Trade. On September 7, the police recommended that Olmert be indicted as a result of this and another investigation into money Olmert received from a New York businessman.

Iran and Security Cooperation with the United States

On July 29, Defense Minister Ehud Barak announced that Israel had reached agreement with the United States for two advanced antimissile warning systems. The X-band radar will be in Israel by January 2009 and reportedly would allow Israel's Arrow anti-ballistic missile to engage Iran's Shihab-3 ballistic missile about halfway

through an 11-minute flight to Israel.¹ The U.S. Defense Department also agreed to increase Israel's access to its Defense Support Program (DSP) satellites.² A Defense Ministry statement reported that Barak had told U.S. Secretary of Defense Robert Gates that "a policy that consists of keeping all options on the table must be maintained" regarding Iran. Barak also said that there was time for "accelerated sanctions" to persuade Iran to abandon its nuclear program.³

On August 13, Barak told Israeli Army Radio that the United States did not "see an action against Iran as the right thing to do." He added, "a small, isolated country like Israel needs in the final analysis to rely on itself, and only itself."⁴

Historical Overview of Israel⁵

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 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

¹ More than 60 Members of Congress had urged President Bush to provide X-band radar in order to more than quintuple Israel's warning time against an Iranian missile attack and allow an intercept by Arrow missiles outside of Israeli territory.

² Dan Williams, "U.S. to Help Israel with Missile Detection - Barak," *Reuters*, July 29, 2008.

³ Paul Richter, Julian E. Barnes, "Strike on Iran is not Off the Table," *Los Angeles Times*, July 30, 2008.

⁴ Quoted in Herb Keinon and Hilary Leila Krieger, "US Clearly States it Opposes Military Action Against Iran Now, Barak Says," *Jerusalem Post*, August 14, 2008, Open Source Center Document GMP20080812735006.

⁵ For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York, Knopf, 1996.

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 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 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.⁶ 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 for the government that took power that 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.

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 and 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 tumultuous in recent years. Former Prime Minister Ariel Sharon's plan to disengage from the Gaza Strip and four small West Bank settlements split his Likud Party. Then, 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. On

⁶ For Basic Laws, see [<http://www.mfa.gov.il/mfa/government/law/basic%20laws/>].

November 20, Labor voted to withdraw from the 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 the President to dissolve parliament and schedule an early election. Some 18 Likud 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, 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 2003 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.⁷

Former Prime Minister and Finance Minister Benjamin Netanyahu won a 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 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 Ehud Olmert became Acting Prime Minister and, on January 16, he became acting chairman of Kadima.

The Hamas victory in the January 25, 2006, 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 revealed plans for further unilateral withdrawals from the West Bank — what he termed “convergence,” or merging of settlements east of the security barrier with large settlement blocs that west of the barrier.⁸ 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.

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 drew 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

⁷ For Kadima’s Action Plan, see [<http://kadimasharon.co.il/15-en/Kadima.aspx>].

⁸ 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.

blamed for social distress and whose opposition to unilateral disengagement proved to be unpopular with an increasingly pragmatic, non-ideological electorate.

The Shas campaign specifically aimed at restoring child allowances for the large families of its constituents. Although Shas opposes disengagements, the party's spiritual leader Rabbi Ovadia Yosef made rulings in the past that some believed might 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 disengagements and the Road Map. The rightist National Union/National Religious Party (NU/NRP) drew support from settlers; it opposes all withdrawals from the West Bank, where it believes Jews have a biblical right to settle. Voters harmed by Netanyahu's policies as well as young protest voters supported the new Pensioners' Party (GIL), which did not elaborate positions on other issues. The ultra-orthodox United Torah Judaism (UTJ) also seeks increased child allowances and military deferments for religious school students. United Arab List, Hadash, and Balad — Israeli Arab parties — are never part of a government.

Table 1. Parties in the Knesset

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) ^a	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

a. UTJ includes the Lithuanian ultra-Orthodox Degel HaTorah party and the Hasidic Agudat Israel party.

Current Government and Politics

On May 4, 2006, the Knesset approved a four-party coalition government of the Kadima Party, the Labor Party, the Pensioners' Party, and the Shas Party. It controlled 67 out of 120 seats in the Knesset, with 25 cabinet ministers, and Dalia Itzik of Kadima as the first woman Speaker of the Knesset. The government's guidelines call for shaping permanent borders for a democratic state with a Jewish

majority.⁹ The guidelines also promise to narrow the social gap. Shas joined the coalition without agreeing to evacuate settlements as specified in the guidelines and will decide on the issue when it is on the government agenda.

Scandals

A series of scandals created a sense that the government was operating under a cloud. In October 2006, police recommended that President Moshe Katzav be indicted on charges of rape, sexual harassment, and obstruction of justice. On June 30, 2007, two weeks before the expiration of his term, Katzav resigned under the terms of a controversial plea bargain providing that he be indicted for lesser offenses, receive a suspended sentence, and pay damages. Katzav was indicted on February 27, 2008, but, on April 8, 2008, he backed out of the plea agreement and decided go on trial to clear his name.

Prime Minister Olmert also is involved in several scandals. Police have opened five investigations into his alleged corruption. Olmert has denied all allegations, but as indicated in **Most Recent Developments**, above, they will result in his resignation as party leader and eventual replacement as Prime Minister.

On January 31, 2007, former (Kadima) Justice Minister Haim Ramon, a close ally of Olmert, was convicted of sexually harassing a female soldier. On March 29, the court upheld Ramon's conviction for indecent assault, but found him not guilty of moral turpitude, opening the way for him to resume a political career and be appointed Vice Prime Minister.

Table 2. Key Cabinet Officers

Ehud Olmert	Prime Minister	Kadima
Tzipi Livni	Vice Prime Minister; Minister of Foreign Affairs	Kadima
Haim Ramon	Vice Prime Minister	Kadima
Ehud Barak	Deputy Prime Minister; Minister of Defense	Labor
Roni Bar-On	Minister of Finance	Kadima
Daniel Friedmann	Minister of Justice	non-partisan
Avi Dichter	Public Security	Kadima
Shaul Mofaz	Deputy Prime Minister; Minister of Transportation*	Kadima
Meir Shitrit	Minister of Interior	Kadima
Yuli Tamir	Minister of Education	Labor
Eli Yishai	Deputy Prime Minister; Minister of Industry, Trade, and Labor	Shas

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

⁹ 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>].

War and Aftermath

Israel engaged in a two-front war against U.S.-designated terrorist groups in response to the June 25, 2006, 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.¹⁰ The Israeli public, press, 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, but they questioned its prosecution. Israelis began debating the war soon after it ended. Critics noted that the kidnaped soldiers were not rescued and that Hezbollah is rearming and has been strengthened politically. The government claimed success in forcing Hezbollah from the border, in degrading its arms, and in pressuring the Lebanese government, aided by international forces, to assert itself in south Lebanon. The fallout from the war included the resignation of Chief of Staff Lt. Gen. Dan Halutz on January 17, 2007. Retired Maj. Gen. Gabi Askenazi, Director General of the Defense Ministry and a former infantry commander, was named to succeed Halutz and promoted to lieutenant general.

Winograd Commission

Amid post-war recriminations, Prime Minister Olmert eventually named retired Judge Eliyahu Winograd to head a governmental commission, the “Committee for the Examination of the Events of the Lebanon Campaign 2006,” to look into the preparation and conduct of the war and gave it authority equal to that of an independent commission. The committee began its work in November 2006.

On April 30, 2007, the Winograd Commission presented its interim findings, assigning personal blame for “failings” to Prime Minister Olmert, then-Defense Minister Peretz, and then-Chief of Staff Halutz.¹¹ It criticized Olmert for “hastily” deciding to go to war without a comprehensive plan, close study, or systematic consultation with others, especially outside the Israeli Defense Forces (IDF). It accused him of declaring unclear, over-ambitious, and infeasible goals and for failing to adapt them once their deficiencies were realized. It concluded that these accusations add up to a “serious failure” in exercising “judgment, responsibility, and prudence.” It faulted Peretz for making decisions without systematic consultations despite his lack of knowledge and experience in military matters, emphasizing his lack of strategic oversight of the IDF. It concluded, “his serving as Minister of Defense during the war impaired Israel’s ability to respond well to its challenges.” The Committee also severely criticized Halutz, who had already resigned.

¹⁰ For additional coverage of these developments, see CRS Report RL33566, *Lebanon: the Israel-Hamas-Hezbollah Conflict*, coordinated by Jeremy M. Sharp.

¹¹ For text of Interim Report, see [<http://www.mfa.gov.il/MFA/Government/Communiques/2007/Winograd+Inquiry+Commission+submits+Interim+Report+30-Apr-2007.htm>].

The final report of the Winograd Committee was released on January 30, 2008.¹² It called the war “a great and severe missed opportunity” and “found grave faults and failings in the decision-making process and the preparatory work both in the political and military levels and the interaction between them.”

Political Repercussions

The political effects of the Winograd Commission’s findings on Prime Minister Olmert have been minimal. Most (26 out of 29) Kadima MKs supported him. Foreign Minister Tzipi Livni called for Olmert’s resignation, but did not work to gain the support of others in the party to achieve this goal. Afterwards, she remained in the government, with her image somewhat tarnished by her unsuccessful action. Shas, Yisrael Beitenu, and the Pensioners’ Party supported the Prime Minister’s refusal to resign and the first two were said to have rejected the idea of remaining in a Kadima-led government if it were led by Livni, who is also Vice Prime Minister, for reasons of ideology and perhaps gender. Yisrael Beitenu viewed her as too supportive of a peace process and Shas may not follow a female head of government. Olmert was not challenged as leader of his Kadima Party and easily defeated three no-confidence votes against his government in the Knesset. Most observers concluded that Olmert emerged relatively unscathed from the final report because it did not blame him personally for what many Israelis consider a debacle. Olmert had said prior to the report’s release that he would not resign as a result of its findings. Afterwards, his office said, “Taking responsibility means staying on, fixing, improving, and continuing to lead the way forward.”

Peretz was defeated in the first round of the Labor Party leadership primary on May 28, 2007. In the second round, on June 12, former Prime Minister and former IDF Chief of Staff Ehud Barak bested former Shin Bet (Israeli Counterintelligence and Internal Security Service) head Ami Ayalon to become party leader. Barak then took over as Defense Minister, saying that he would serve until an election or until someone other than Olmert forms a new government.

On February 3, Barak announced that he would not withdraw Labor from the government because of the Winograd report. He said that it was “an opportunity to correct things that were revealed” and that he was staying in the government because of the “challenges Israel faces - Gaza, Hezbollah, Syria, Iran, and rehabilitating the army.” Labor Party ministers argued that supporting the peace process is more important than the Winograd Report, but they also may have been influenced by public opinion polls which predicted a Likud victory in the next election.

Effects of Renewed Peace Process

Resumed Israeli-Palestinian negotiations roiled the domestic political waters, with the fate of Jerusalem being the main focus of discord. In September 2007, Vice Premier Ramon, sometimes viewed as a surrogate for Prime Minister Olmert because

¹² For key findings of the Winograd Committee, see [http://www.mfa.gov.il/MFA/MFAArchive/2000_2009/2008/Winograd%20Committee%20submits%20final%20report%2030-Jan-2008].

of their close ties, floated a peace plan for maintaining a democratic Israel with a solid Jewish majority; one provision calls for Israel to cede control of Arab neighborhoods in Jerusalem to the Palestinians and for each religion to administer its holy sites. In October, Olmert himself questioned whether Israel needed to retain outlying Arab neighborhoods in East Jerusalem.

Shas Party leader Eli Yishai responded that his party would leave the coalition if Jerusalem were a subject of negotiations. Meanwhile, Yisrael Beiteinu head Lieberman asserted that while refugee camps near Jerusalem could be handed over to Palestinian control, the Jewish holy sites should not be discussed. Opposition leader Netanyahu declared that Jerusalem must remain united forever under Israeli control and a majority of the Members of the Knesset (parliament/MKs) signed a petition circulated by Likud, expressing that view. Signers included 30 MKs from coalition parties as well as opposition MKs. Netanyahu called on Yisrael Beiteinu and Shas to leave the coalition. On January 16, 2008, Lieberman announced that Yisrael Beiteinu Party was withdrawing from the government because negotiations with the Palestinians were dealing with core issues. After the loss of Yisrael Beiteinu, the Olmert coalition survived with a majority of 67 seats in the Knesset.

On January 22, 2008, Shas leader Yishai reportedly warned Olmert that his party would not be part of the government from the moment it makes concessions in the peace talks on red lines like Jerusalem.¹³ Olmert only promised to keep Shas fully informed about the negotiations. Shas is exacting a high price for remaining in the government and supporting Olmert against no-confidence votes in the Knesset. Olmert has approved construction of many housing units in several settlements near Jerusalem inhabited predominantly by Shas constituents, which would appear to contravene the 2003 Road Map's call on Israel to end all settlement activity. Moreover, Yishai reportedly has said that his party would quit the government if child welfare payments were not increased and is holding up government appointments until it is done.¹⁴

Other Political Developments

On June 13, 2007, the Knesset elected Kadima candidate, 83-year-old Shimon Peres to be President of Israel. On July 4, Olmert shuffled his cabinet, naming Haim Ramon Vice Premier to replace Peres, Roni Bar-On Finance Minister, and Meir Shitrit Interior Minister, among other appointments. Ramon and Bar-On are close associates of the Prime Minister.

On July 9, 2007, controversial Russian-born billionaire Arkadi Gaydamak announced the creation of the Social Justice Party. French authorities seek to arrest Gaydamak for alleged arms trafficking to Angola in the 1990s and Israeli police have

¹³ Gil Hoffman, "Olmert Promises Yishay Full Disclosure on Peace Concessions," *Jerusalem Post*, January 23, 2008.

¹⁴ Mazal Mualem, "Shas Threatens to Bolt Gov't over Child Welfare Payments," *Haaretz*, May 27, 2007.

questioned him about money-laundering.¹⁵ However, some in Israel view him as a philanthropist. Gaydamak is a candidate in the November 2008 Jerusalem mayoral election.

Election Preview

In May 2008, police questioned Prime Minister Olmert twice in connection with money he received from New York businessman and fund raiser Morris (Moshe) Talansky. Talansky later testified that he had transferred more than \$150,000 to Olmert over 13 years. Olmert admitted that he had taken campaign contributions from Talansky, but denied that he had ever taken a bribe or pocketed money for himself. He said that he would resign if indicted.¹⁶

On May 28, a day after Talansky's testimony, Labor Party leader Barak declared that Olmert could not "simultaneously run the government and deal with his own personal affair." Therefore, "for the good of the state," he called on Olmert to cut himself off from the daily running of the government via "suspension, vacation, or resignation or declaring himself incapacitated." He said that Labor would consider working with Olmert's replacement in Kadima. If Kadima did not act, then Labor would provoke early elections.¹⁷

On June 24, after Labor ministers decided to support a bill on calling for the dissolution of the Knesset and thereby for early elections, Barak and Olmert cut a deal before a vote on the bill: Labor would not support the bill and Olmert agreed to complete a Kadima primary for a new party chairman not later than September 25. Candidates for Kadima party leader include Vice Prime Minister and Foreign Minister Tzipi Livni, Deputy Prime Minister and Transportation Minister Shaul Mofaz, Interior Minister Meir Shitrit, and Public Security Minister Avi Dichter.

Reacting to the announcement that indirect peace talks had begun between Israel and Syria, Likud Party leader Netanyahu claimed, "The way to guard the Golan and Jerusalem is to go to elections now. If we don't live here (on the Golan Heights), Iranian soldiers will."¹⁸ Likud and other opposition parties were outraged when the Olmert-Kadima deal short-circuited the prospect for imminent elections.

¹⁵ "Israeli Billionaire Launches Party 'To Oust Olmert,'" *Daily Telegraph*, July 10, 2007.

¹⁶ Cam Simpson, "Olmert Defends Taking Cash, Vows to Resign if Indicted," *Wall Street Journal*, May 9, 2008.

¹⁷ Statement by Barak, Voice of Israel, May 28, 2008, BBC Monitoring Newsfile.

¹⁸ Rebecca Anna Stoil, "Netanyahu: the Golan will Stay Israeli," *Jerusalem Post*, May 30, 2008.

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 member states. Despite limited natural resources, the agricultural and industrial sectors are well developed. The engine of the economy is an advanced high-tech sector, including aviation, communications, computer-aided design and manufactures, medical electronics, and fiber optics. Israel greatly depends on foreign aid and loans and contributions from the Jewish diaspora.

Table 3. Basic Facts

Population	7.1 million (includes an estimated 187,000 settlers in the West Bank, 20,000 in the Golan Heights, and fewer than 177,000 in East Jerusalem) (July 2008 est.)
Jews	76.4%
non-Jews, mostly Arabs	23.6%
Gross Domestic Product growth rate	5.3% (2007 est.)
GDP per capita	\$25,800 (2007 est.)
Unemployment rate	7.3% (2007 est.)
Population below poverty line	1.6 million (2007 est.)
Inflation rate	0.5% (2007 est.)
Military Expenditures	7.3% GDP (2006)
Public debt	80.6% GDP (2007 est.)
Exports	\$50.24 billion (2007 est.)
Export commodities	machinery and equipment, software, agricultural products, cut diamonds
Export partners	U.S. 38.4%, Belgium 6.5%, Hong Kong 5.9% (2006)
Imports	\$55.76 billion (2007 est.)
Import commodities	raw materials, military equipment, investment goods, rough diamonds
Import partners	U.S. 12.4%, Belgium 8.2%, Germany 6.7%, Switzerland 5.9%, UK 5.1%, China 5.1% (2006)

Source: CIA, *The World Factbook*, September 4, 2008, Israeli government agencies.

Under former Finance Minister Netanyahu, the government attempted to liberalize the economy by controlling government spending, reducing taxes, and privatizing state enterprises. The chronic budget deficit decreased, while the country's international credit rating was raised, enabling a drop in interest rates. However, Netanyahu's critics suggested that cuts in social spending widened the national income gap and increased the underclass.

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 called 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 health care, child allowances, daycare, and other socioeconomic programs.

Current Issues

In a 2007 year-end speech, Olmert painted a positive picture of the economy which he attributed to the eradication of terror from city centers, the existence of hope in the political process, and Israel's place in the global economy.¹⁹ In its inflation report for 2007, the Bank of Israel (central bank) said that the resilience of Israel's economy is founded on a business sector that is growing, becoming more efficient, and is profitable; fiscal policy that is keeping to a budget appropriate to the state of the economy; and monetary policy that is striving for price stability and supports financial stability. The Bank also noted that the smallness of the economy and its openness to trade and to strong and fast capital flows limits policy makers' flexibility.²⁰

On April 13, 2008, Finance Minister Roni Bar-On claimed that Israel is poised to withstand the crisis in the world economy and grow at a more moderate pace. Bank of Israel Governor Stanley Fischer predicted a 2008 growth rate of 3.2%.²¹ On May 25, the Central Bureau of Statistics reported a first quarter growth rate of 5.4% in annualized terms and an unemployment rate down to 6.3%. Labor wants the budget cap raised to 2.5% and has threatened to vote against the 2009 budget if it is not.

¹⁹ "PM Olmert's 10 Dec Speech to the Israel Business Conference," Government Press Office, Open Source Center Document GMP20071211738009.

²⁰ Bank of Israel, *Inflation Report 2007*, Open Source Center Document GMP20080223739005.

²¹ Moti Bossok, "Bar-On: The Israeli Economy with Withstand the World Economic Crisis," *Haaretz*, April 14, 2008

Foreign Policy

Middle East

Iran. Israeli officials state that Iran will pose an existential threat to Israel if it achieves nuclear weapons 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" and has described the Holocaust as a "myth" used as a pretext to create an "artificial Zionist regime." He repeatedly makes virulently anti-Israel statements. Iranian Shahab-3 missile is capable of delivering a warhead to Israel, and the Ashura missile will have a similar capacity. 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. On June 20, 2007, the House agreed to H.Con.Res. 21, calling on the U.N. Security Council to charge Ahmadinejad with violating the Convention on the Prevention of Genocide because of his calls for the destruction of the State of Israel. On June 21, it was referred to the Senate Committee on Foreign Relations.

In 2005, when U.S. Vice President Dick Cheney warned that Israel might act preemptively against Iran, Israel's then Defense Minister Shaul Mofaz countered, urging a pre-emptive U.S. strike. Some consider the prospect of an Israeli counterattack to be an effective deterrent against an Iranian attack because Israel is presumed to have nuclear weapons. However, 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."²² On April 23, he stated, "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 U.S., Europe, and the U.N. institutions. We are not ignoring our need to take ... steps in order to be prepared for any eventuality."²³ On November 13, Olmert told the U.S. "Today Show" that he would find acceptable any compromise that President Bush does to stop Iran from acquiring nuclear capabilities.

On January 24, 2007, Olmert restated his continuing preference for a diplomatic solution and observed that Iran is "very vulnerable" to international pressure. He added, "Israel does not face an imminent danger of a nuclear attack" and that there is still time to frustrate Iran's intentions to become a nuclear power.²⁴ Israel welcomed

²² "PM Olmert, President Qatzav Discuss Iran, Peace Process During News Conference," Open Source Center Document FEA20060117017385, January 17, 2006.

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

²⁴ Verbatim text of speech to the Herziliyya Conference, reported by IDF Radio, BBC (continued...)

U.N. Security Council Resolution 1747, March 24, 2007, which imposed additional sanctions in Iran due to its failure to halt uranium enrichment. It also welcomed the U.S. State Department's October 25th decision to subject Iran's Revolutionary Guards, some financial entities, and individuals to economic sanctions. Other Israeli officials have expressed concern about the ramifications of a military strike against Iran on regional stability and about possible retaliation by Iran, Syria, and Hezbollah.

Israel and the United States appear to differ in their forecasts for Iran's nuclear capabilities. U.S. Director of National Intelligence Mike McConnell, at the Senate Armed Services Committee in February 2007, estimated that Iran could develop nuclear weapons and the capacity to deliver them by 2015. Israelis believe that they must prepare for a more imminent threat. On February 5, 2008, the head of Mossad Meir Dagan told the Knesset Foreign Affairs and Defense Committee that Iran will develop a nuclear weapon in three years.²⁵ On February 26, Maj. Gen. Amos Yadlin, the head of Military Intelligence, told the Committee that the Iranians would likely achieve a viable weapon in 2010.²⁶

Israeli officials challenged some of the Key Judgements of the U.S. National Intelligence Estimate (NIE) on Iran released on December 3, 2007. The NIE concluded with "high confidence" that Iran had halted its nuclear program in fall 2003, with "moderate confidence" that it had not restarted the program as of mid-2007, and with moderate-to-high confidence "that Teheran at a minimum is keeping open its options to develop nuclear weapons."²⁷ The NIE also observed that Iran is continuing to produce enriched uranium for civilian purposes and that the program could provide enough material to produce a nuclear weapon by the middle of the next decade. Defense Minister Barak responded that, although Iran had halted its military nuclear program for a while in 2003, it is still continuing with its program. He maintained that Israel "could not allow itself to rest just because of an intelligence report from the other side of the globe, even if it is from our greatest friend."²⁸ The Foreign Ministry welcomed the section of the NIE that noted the effectiveness of international pressure and sanctions.

On December 8, Prime Minister Olmert observed, "Iran is continuing to pursue the two vital components needed for a nuclear weapons program — developing and

²⁴ (...continued)

Monitoring Middle East, January 25, 2007.

²⁵ Remarks by President Bush at Joint Press Availability, January 9, 2008, [<http://www.whitehouse.gov>].

²⁶ Shahar Ilan, "MI Chief: Terrorists Trained in Syria, Iran have Infiltrated Gaza," *Haaretz*, February 26, 2008.

²⁷ National Intelligence Council, National Intelligence Estimate, *Iran: Nuclear Intentions and Capabilities*, November 2007. Only the "Key Judgements" section of NIE was released unclassified. The NIE explains that high confidence indicates judgments based on high quality information, but which still carry a risk of being wrong. Judgements of moderate confidence are credibly sourced and plausible.

²⁸ Stephen Erlanger and Isabel Kershner, "Israel Insists That Iran Still Seeks a Bomb," *New York Times*, December 5, 2007.

advancing their rocket arsenal and enriching uranium.” In an interview published on January 26, 2008, Defense Minister Barak told the *Washington Post*, “We suspect they are probably already working on warheads for ground-to-ground missiles... (and) that probably they have another clandestine enrichment operation beyond the one in Natanz.” On May 11, Olmert contested the NIE’s conclusion that Iran had not restarted his nuclear weapons program, maintaining, “Based on the information we have, the military program continues and has never been stopped. If this program continues, at some point they will be in possession of a nuclear weapon.”²⁹.

Israel also is concerned about Iran’s support for anti-Israeli terrorist groups. Iran 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 Israel.

Prime Minister Olmert has called upon moderate Sunni leaders in the region to form a coalition against Iran, Hezbollah, and other regional extremists. Those leaders seek a settlement of the Israeli-Palestinian conflict as a precondition for dealings with Israel. Nonetheless, it was widely reported, but not officially confirmed, that Olmert met Saudi National Security Advisor Prince Bandar in September 2006, and commentators opined that Iran was on their agenda.

On January 6, 2008, President Bush reasserted, “If Iran did strike Israel... (w)e will defend our ally (Israel), no ands, ifs, or buts.”³⁰ During a visit to Israel on January 9, the President tried to reassure Israelis. He noted that the NIE “sent the signal to some that said perhaps the United States does not view an Iran with a nuclear weapon as a serious problem..., (but) Iran was a threat, Iran is a threat, and Iran will be a threat if the international community does not come together and prevent that nation from the development of the know-how to build a nuclear weapon.”

On January 17, Israel successfully tested a new long-range missile, the Jericho-3, that is probably capable of delivering nuclear warheads.

On April 16, Olmert promised the citizens of Israel, “Iran will not have nuclear capability.”³¹ He later told visiting Members of Congress that “the window of opportunity to prevent a nuclear Iran will close in 2010. Iran would then provide a nuclear umbrella to the terrorist organizations and would make the fight against them difficult.”³² In a June 4 speech, Olmert claimed, “With every day that passes, we are getting closer to stopping Iran’s nuclear program.”

²⁹ Lally Weymouth, “A Conversation with Ehud Olmert,” *Washingtonpost.com*, May 11, 2008.

³⁰ “Bush Says US Would Defend Israel if Iran Attacks,” *Agence France Presse*, January 6, 2008.

³¹ Landau and Verter, *op. cit.*

³² Itamar Eichner, “PM to Congressmen: Iran would Provide Nuclear Umbrella to Terrorists,” *Yedi’ot Aharonot*, May 20, 2008, Open Source Center Document GMP20080520743002.

On June 20, the *New York Times* reported that Israel's air force had conducted a major exercise about 900 miles west Israel in the Mediterranean, comparable to the distance from Israel to Iran's uranium enrichment plant at Natanz. The exercise was viewed as a rehearsal for an attack on Iran's nuclear facilities and a signal to the West of Israel's readiness to act if diplomacy fails to curtail the Iranian threat.³³ On June 30, ABC News reported that "a senior Pentagon official" had claimed that there is an "increasing likelihood" that Israel would carry out an attack on Iran's nuclear facilities before the end of the year. A strike could be triggered by Iran's production of enough highly enriched uranium to make a nuclear weapon or before Iran deploys a new Russian SA-20 air defense system. The official expressed concern about repercussions for the United States. On July 2, Chairman of the U.S. Joint Chiefs of Staff Admiral Mike Mullen said that "opening a third front (in addition to Iraq and Afghanistan) right now would be extremely stressful" on the U.S. military. He added that the consequences of an attack on Iran "are very difficult to predict."

On July 4, commander of Iran's Revolutionary Guards Gen. Mohammed Ali Jafari declared that Iran would consider military action against its nuclear facilities as the beginning of a war. On July 7, the Guards' website carried a statement that Tel Aviv, Israel's largest city, and the U.S. naval fleet in the Persian Gulf would be among the first targets of an Iranian response.³⁴ On July 9, the Guards test-fired nine missiles, including one capable of reaching Israel. A White House spokesman stated that Iran's development of ballistic missiles violated U.N. Security Council resolutions and called on the Iranians to "stop the development of ballistic missiles which could be used as a delivery vehicle for a potential nuclear weapon."

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 entire Gaza Strip. After Ariel Sharon came to power and during the *intifadah* or Palestinian uprising against Israeli occupation, Israel refused to deal with the late Palestinian leader Yasir Arafat. 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 Abbas and 13 Palestinian factions agreed to an informal truce. However, Sharon and Abbas did not meet for a long time after June 2005. Although Israeli officials described the disengagement from the Gaza Strip as unilateral, they met with Palestinian counterparts to coordinate security for the disengagement and disposition of Israeli assets in Gaza.

Israel has at least 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

³³ Michael R. Gordon and Eric Schmitt, "U.S. Says Exercise by Israel Seemed Directed at Iran," *New York Times*, 20, June 2008.

³⁴ "Iranian Military Warns US, Israel Against Attack," CNN.com, July 8, 2008.

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, which is about 60% complete, is taking the form of a future border between Israel and Palestine and cuts Palestinians off from East Jerusalem and, in some places, from each other and some of their land.

The Israeli government accepted the Road Map, 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.³⁵ Former Prime Minister Sharon contended that the Road Map requires that the PA first fight terror, by which he meant disarm militants and dismantle their infrastructure, but it also required Israel to cease settlement activity in the first phase. Abbas initially 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 Abbas, Israel, and the international community. Israel demanded that Hamas abrogate its Covenant that calls for the destruction of Israel, recognize Israel, disarm and disavow terrorism, and accept all prior agreements with Israel as preconditions for relations with a Hamas-led PA.

Israel initially refused to negotiate with Hamas for the return of Cpl. Gilad Shalit, an Israeli soldier kidnaped on June 25, 2006. After the kidnaping, Israel arrested members of the Hamas-led PA government and legislature for participating in a terrorist group, and Israeli forces conducted military operations against Hamas and other militant groups in the Gaza Strip as well as in the West Bank.

On March 18, 2007, the Israeli cabinet voted to shun the new Palestinian unity government, a coalition of Hamas, Fatah, and independents, until it met what had become international demands to disavow violence, recognize Israel, and accept prior Israeli-Palestinian agreements. Prime Minister Olmert said that he would continue to meet with President Abbas only to discuss humanitarian and security issues. After Hamas took control of Gaza in June, Olmert said that he would deal with the new PA government appointed by Abbas to replace Hamas but not cooperate with Hamas in Gaza. Israel transferred tax revenues to the PA, resumed security cooperation with it, transferred armored personnel carriers to the PA security forces, and released several hundred Fatah-affiliated prisoners.

Olmert and Abbas began meeting regularly in summer 2007, and, as President Bush announced at the Annapolis Conference on November 27, reached a "Joint Understanding" to simultaneously begin continuous bilateral negotiations for a peace treaty and implement the Road Map. Those negotiations continue, with teams led by Foreign Minister Livni and former Palestinian Prime Minister Ahmed Quray.

Indirectly via Egyptian mediators, Israel and Hamas agreed to a cease-fire in June 2008 and are continuing to negotiate a prisoner exchange to obtain Shalit's release.

³⁵ For text, see [<http://www.state.gov/r/pa/prs/ps/2003/20062.htm>].

Egypt.³⁶ 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* (Palestinian uprising against Israeli occupation), 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 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. After the January 2006 Hamas election victory in the Palestinian territories, Egyptian officials unsuccessfully urged the group to accept the 2002 Arab Peace Initiative that offers Israel recognition within its 1967 borders in exchange for full normalization of relations with Arab countries. Egypt supports President Mahmud Abbas generally in order to ensure that there is a Palestinian partner for peace negotiations with Israel and it is training the Palestinian Presidential Guard. After Hamas took over the Gaza Strip in June 2007, Egypt worked with Israel to close the Rafah crossing at the Gaza-Egypt border and moved its representative to the PA to the West Bank. However, Egypt reportedly permitted about 85 Hamas members and other militants wanted by Israel to enter Gaza via Rafah in October 2007 in exchange for a wanted Al Qaeda militant.³⁷ Egypt also has called for a revival of the Fatah-Hamas unity government that Abbas dissolved in June 2007. Egyptian intelligence chief Omar Sulayman mediated the June 2008 Israel-Hamas cease fire and continues to mediate indirect talks between Israel and Hamas on a prisoner exchange for Cpl. Shalit.

Egypt deployed 750 border guards to secure the Rafah crossing after Israel's disengagement from Gaza in 2005. Israel refused an Egyptian request to deploy military border guards, instead of police, for greater control of smuggling along the entire border in Sinai. Israelis argued that an increased military presence would require changes in the military annex to the 1979 peace treaty and contend that 750 border guards plus 650 general police who also are present should suffice to do the job, if there is the will. Israeli officials repeatedly expressed frustration with Egypt's failure to control arms-smuggling into Gaza; on December 24, 2007. P.L. 110-161, the Consolidated Appropriations Act, 2008, signed into law on December 26, 2007, would have withheld \$100 million in Foreign Military Financing (FMF) from Egypt until the Secretary of State reported that Cairo had taken steps to detect and destroy the smuggling network and tunnels that lead from Egypt to Gaza, among other measures. Egypt rejected the conditions and, on December 31, Foreign Minister

³⁶ See also, CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.

³⁷ "Hamas 'Handed Al Qaeda Fugitive to Egypt' in Exchange for Border Opening," *Daily Star* (Beirut), October 2, 2007.

Ahmad Abu al Ghayt blamed the “Israel lobby” for trying to damage Egyptian interests in Congress, and warned that Egypt would retaliate if Israel continued trying to undermine Cairo’s ties to Washington.³⁸

In November 2007, the U.S. Army Corps of Engineers sent a team to examine the tunnels. President Mubarak said that Egypt is following U.S. advice and obtaining advanced equipment to detect tunnels; it will spend \$23 million of its U.S. FMF for this purpose. In March 2008, Secretary of State Condoleezza Rice confirmed that she had waived the congressional hold on \$100 million in FMF for Egypt related to the tunnel issue. On June 16, the Administration disclosed that an army team had begun training Egyptian forces in using electronic equipment to detect smuggling tunnels.³⁹ In late June, U.S. military engineers installed tunnel-detection devices along the Philadephi Corridor between Gaza and Egypt.

After Hamas blew up the border wall between the Gaza Strip and Egypt on January 23, 2008, allowing tens of thousands of Gazans to stream into Egypt, Egyptian forces did not block their entry. Israeli officials said that they expected Egypt to bring the situation under control. Egypt resealed the border, but has been unable to achieve a new arrangement for border control mainly because Hamas insists on participating and excluding Israel, and President Abbas refuses to deal with Hamas. Israeli officials reportedly are pleased with Egypt’s decision to construct a new, concrete border wall, complete with outlook posts and surveillance systems, to replace the one that was blown up.⁴⁰

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 have grown and as have Egyptian exports to the United States. In October 2007, the agreement was amended and expanded. 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. Gas began to flow in February 2008, but the supply was halted four times between May and August due to technical difficulties and shortages in Egypt.

Jordan.⁴¹ Israel and Jordan signed a peace treaty in October 1994 and exchanged ambassadors, although Jordan did not have an ambassador in Israel during

³⁸ “Egypt Warns Israel not to Undermine Ties to U.S.,” Reuters, December 31, 2007.

³⁹ Under the 1976 Arms Export Control Act, Major defense equipment is defined as any item of significant military equipment on the U.S. Munitions List having a nonrecurring research and development cost of more than \$50 million or a total production cost of more than \$200 million.

⁴⁰ Yaakov Katz, “Israel Impressed by Cairo’s Efforts at Gaza Border,” *Jerusalem Post*, March 12, 2008.

⁴¹ See also CRS Report RL33546, *Jordan: Background and U.S. Relations*, by Jeremy M. Sharp; and CRS Report RS22002, *Qualifying Industrial Zones in Jordan and Egypt*, by Mary Jane Bolle, Alfred B. Prados, and Jeremy M. Sharp.

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). 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 supports the peace process, wants the Road Map to be implemented, and has hosted meetings between Israeli and Palestinian leaders. In January 2007, Jordan joined Egypt, Saudi Arabia, and Palestinian President Abbas in advocating an agreement on the “end game” before following the Road Map. The King has opposed possible unilateral Israeli steps in the West Bank, fearing that they would strengthen Palestinian radicals who could destabilize the region and undermine his regime. He is one of the strongest proponents of the Arab Peace Initiative, offering Israel relations with Arab countries in exchange for its full withdrawal from occupied territories and a solution to the Palestinian refugee issue, which the Arab League reaffirmed in March 2007. U.S. training of a new Palestinian gendarmerie, considered central to institutions for a new Palestinian state, is being conducted in Jordan.

After Hamas took over Gaza in June 2007, speculation revived concerning a possible union between Jordan and the West Bank, which some in Israel have long suggested as the ideal solution. On July 1, King Abdullah firmly rejected the idea, “I say clearly that the idea of confederation or federation, or what is called administrative responsibility, is a conspiracy against the Palestinian cause, and Jordan will not involve itself in it.... The Jordanians refuse any settlement of the Palestinian issue at their expense.”⁴² In 1988, the King’s father had disengaged Jordan from the West Bank and accepted the Palestine Liberation Organization (PLO) as the sole body responsible for Palestinian areas.

Syria. Israel and Syria have fought several wars and, except for rare breaches, have maintained a military truce along their border for many years. Yet, they failed to reach a peace agreement in negotiations that ended in 2000. Since 1967, Israel has occupied Syria’s Golan Heights and, in December 1981, effectively annexed it by applying Israeli law there. There are 42 Israeli settlements and 20,000 settlers on the Golan. Syrian President Bashar al Asad called for unconditional peace talks with Israel, while Israeli officials demanded that he first cease supporting the Lebanese Hezbollah militia, expel Palestinian rejectionist groups (i.e., those who reject an Israeli-Palestinian peace process and the existence of Israel), and cut ties with Iran.

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 said that Israel was not interested in the fall of the regime, only in changing its policies. Some reportedly fear that anarchy or extreme Islamist

⁴² July 1 interview with *Al Ghad* newspaper, cited in Hassan M. Fattah, “Growing Talk of Jordanian Role in Palestinian Affairs,” *New York Times*, July 10, 2007.

elements might follow Asad and prefer him to stay in power in a weakened state. On December 1, 2005, former Prime Minister 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.

Syria hosts Hamas political bureau chief Khalid Mish'al and other Palestinian groups that reject negotiations with Israel, and supplies Hezbollah with Syrian and Iranian weapons. After the June 25, 2006, Palestinian attack on Israeli forces and kidnaping of an Israeli soldier, Israeli officials specifically requested the United States to pressure President Asad to expel Mish'al, whom they believed was responsible for the operation. Syria refused. When Hezbollah abducted two Israeli soldiers from northern Israel on July 12, sparking an Israeli-Hezbollah war, some rightwing Israeli politicians demanded that it be expanded to include Syria. However, the government and military did not want to open a third front against Syria in addition to those against Hezbollah in Lebanon and Hamas in Gaza. U.S. officials demanded that Syria exert its influence on Hezbollah to end the conflict; Syrian officials unsuccessfully sought a broader resolution that would include a revival of a peace process to produce the return of the Golan Heights.

In September 2006, Prime Minister Olmert, declared, "As long as I am prime minister, the Golan Heights will remain in our hands because it is an integral part of the State of Israel."⁴³ He also indicated that he preferred not to differ with the Bush Administration's policy of not dealing with Syria due to its support for terrorists, destabilizing of Lebanon, and failure to control the infiltration of insurgents into Iraq. However, on April 24, 2008, Syrian President Bashar al Asad revealed that Turkish Prime Minister Recep Tayyip Erdogan had informed him "about Israel's readiness for a full withdrawal from the Golan Heights in return for a peace agreement with Israel." In May 2008, it was disclosed that Israel and Syria had been exchanging messages via Turkish intermediaries for more than a year and, on May 21, the two parties publicly announced that they had begun indirect talks in Istanbul. On May 21, it was announced that Israel and Syria had begun indirect peace talks thru Turkish intermediaries. Olmert acknowledges that the price of peace would be Israeli withdrawal from the Golan.

On September 6, 2007, the Israeli Air Force carried out an air raid against a site in northeastern Syria. The Israeli government did not comment about the strike or provide details and considerable speculation about the likely target ensued. On September 12, the *New York Times* alleged that the target may have been a nuclear weapons installation under construction with North Korean-supplied materials, which Syrian and North Korean officials denied. Syria did not take concrete actions in retaliation for the air raid. H.Res. 674, introduced on September 24, would express "unequivocal support" ... "for Israel's right to self defense in the face of an imminent nuclear or military threat from Syria."

⁴³ "Olmert Tells Israeli Paper: Golan 'An Integral Part of the State of Israel'," *Yedi'ot Aharonot*, September 26, 2006, citing a *Mishpaha* newspaper interview, Open Source Center Document GMP20060926746002.

Lebanon.⁴⁴ 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 where the borders of Lebanon, Syria, and Israel meet. The U.N. determined, however, that Israel’s withdrawal from Lebanon was complete and treats the Shib’a Farms as part of Syria’s Golan Heights occupied by Israel. Syria verbally recognizes that Shib’a is part of Lebanon, but will not demarcate the border officially as long 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 war against Hezbollah in Lebanon. On July 17, Prime Minister Olmert declared 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 demanded a prisoner swap, namely, that the Israeli soldiers be exchanged for Lebanese and other Arab prisoners held in Israel. The war ended with a cessation of hostilities on August 14. Israeli positions were assumed by the Lebanese army and an enlarged U.N. Interim Forces in Lebanon (UNIFIL). The U.N. reports that Hezbollah is rearming via smuggling across the Lebanese-Syrian border.

On May 31, 2008, Hezbollah handed over the remains of five Israeli soldiers killed in 2006 war to Israel. At the same time, Israel released to Lebanon an Israeli of Lebanese descent who had been convicted of spying for Hezbollah. On June 29, the Israeli cabinet approved a larger prisoner exchange. The remains of the two Israeli soldiers captured in 2006, a report on Ron Arad, an Israeli pilot missing in action since 1986, and the remains of Israeli soldiers killed in the 2006 war were to be given to Israel. In exchange, Israel would release Samir Kuntar, a Lebanese member of a Palestinian terrorist group who killed an Israeli man and his young daughter in 1979, four Hezbollah fighters, the bodies of eight Hezbollah members, and the bodies of other terrorists, and supply information on four missing Iranian diplomats to the U.N. Secretary General. At a later date, Israel will release some Palestinian prisoners. The exchange has been completed.

Iraq. In a March 12, 2007, speech, Prime Minister Olmert warned against the consequences of a “premature” U.S. withdrawal from Iraq, arguing that a negative outcome there would harm Israel, the Gulf States, and the stability of the Middle East as well as the ability of the United States to address threats emerging from Iran.⁴⁵

⁴⁴ See also CRS Report RL33509, *Lebanon*; and CRS Report RL31078, *The Shib’a Farms Dispute and Its Implications*, both by Alfred Prados.

⁴⁵ For text of speech, see [<http://www.pmo.gov.il/PMOEng/Communication/PMSpeaks/> (continued...)]

Israel's Ambassador to the United States has expressed hope that withdrawal from Iraq would be done "in such a way that does not strengthen Iran and Al Qaeda or boost organizations such as Hezbollah and Hamas, so that we don't face a new eastern front from Iran to Kfar Saba."⁴⁶ The late Israeli commentator Ze'ev Schiff suggested that if Arabs interpret America's withdrawal as a sign of defeat, then Israel could look forward to a radical Arab shift that will strengthen extremists.⁴⁷ Others have opined that Israel fears that a U.S. withdrawal would be seen as a victory for Iran and could prompt Syria to consider military options to recover the Golan Heights.⁴⁸ Some of these sentiments may have influenced H.Rept. 110-060, March 20, 2007, to accompany H.R. 1591, Emergency Supplemental Appropriations for FY2007, which stated, "The fight in Iraq is also critical to the future of Israel. A failure in Iraq will further destabilize the region, posing a direct threat to Israel. We must not let that occur to our friend and ally."

Other. Aside from Egypt and Jordan, Israel has diplomatic relations with the majority-Muslim countries 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 Palestinian *intifadah* and the offices have not reopened. 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 September 1, 2005, meeting in Istanbul with the Pakistani foreign minister, although Pakistani officials asserted that they will 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. General Assembly opening session. In October, Pakistan accepted Israeli humanitarian aid after a devastating earthquake. In April 2007, Musharraf offered to mediate between Israel and the Palestinians and said that he would be willing to visit Israel to help bring peace to the Middle East. Prime Minister Olmert declined the offer, preferring to deal directly with Palestinian President Abbas.

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. Foreign Minister Shalom attended the World Summit on the Information Society November 2005 and Knesset members

⁴⁵ (...continued)
speechaipac130307.htm].

⁴⁶ Interview by Tal Schneider, *Ma'ariv*, April 27, 2007, Open Source Center Document GMP20070427754006.

⁴⁷ Ze'ev Schiff, "US Withdrawal in Iraq to Strengthen Arab Extremists Around Israel," *Haaretz*, April 20, 2007.

⁴⁸ Hussein Agha, "The Last Thing the Middle East's Main Players Want is US Troops to Leave Iraq," *The Guardian*, April 25, 2007.

attended the European-Mediterranean Parliamentary Assembly in March 2007; both events were held in Tunis.

In September 2006, Foreign Minister Livni was said to have met with 10 Arab and Muslim foreign ministers at the U.N. On January 30, 2007, Vice Premier Shimon Peres met the Emir of Qatar in Doha. Speaker Itzik was invited to the Inter-Parliamentary Union meeting in Indonesia in May 2007, but did not attend because of security concerns. In September 2007, Livni met the Emir of Qatar at the U.N. and appeared with the Secretary-General of the Omani Foreign Ministry at a public event. In April 2008, she paid a three-day visit to participate in the Doha Forum on Democracy, Development, and Free Trade in Qatar, where she met the Emir and the prime minister. She also held her first public meeting with her Omani counterpart, who refused to reopen Israel's trade office in Muscat until an agreement is reached on establishing a Palestinian state.

Israel also has good relations with predominantly Muslim Azerbaijan, which supplies about one-sixth of Israel's oil needs and seeks Israeli investments, as well as with Tajikistan, which seeks Israel's technological expertise.

European Union⁴⁹

Israel has complex relations with the European Union (EU). Many Europeans believe that the Israeli-Palestinian conflict is a root cause of terrorism and of 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 Road Map. The EU is concerned about Israel's ongoing settlement activity and construction of the security barrier in the West Bank, which, according to the Europeans, contravene the Road Map and prejudice 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. The 90-man EU mission was extended despite European complaints about Israeli restrictions and frequent closures of the crossing. It suspended operations on June 13, 2007, when Hamas took over Gaza. Negotiations to reopen the crossing, with EU monitors, are ongoing. After the war in Lebanon, Israel urged and welcomed the strong participation of European countries in the expanded United Nations Interim Force in Lebanon (UNIFIL).

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

⁴⁹ See also CRS Report RL31956, *European Views and Policies Toward the Middle East*, December 21, 2005, by Kristin Archick, and CRS Report RL33808, *Germany's Relations with Israel: Background and Implications for German Middle East Policy*, by Paul Belkin.

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. As a member of the international Quartet, the EU officially agrees with preconditions for relations with Hamas: disavowal of violence, recognition of Israel, and acceptance of prior Israeli-Palestinian accords. The EU developed, at the Quartet's request, a temporary international mechanism to aid the Palestinian people directly while bypassing the then Hamas-led PA government.

The EU does not include Hezbollah on its list of terrorist organizations as Israel demands. Israel has protested meetings between European ambassadors and Hezbollah ministers in the Lebanese cabinet. However, European countries have contributed military forces to the expanded UNIFIL, which needs to communicate with Hezbollah, and contacts might be impeded by a terrorist designation.

Israel participates in the EU's Euro-Mediterranean Partnership Initiative, otherwise known as the Barcelona Process, the European Neighborhood Policy (ENP), and the new Union for the Mediterranean.

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; memoranda 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 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 that failed to reach a peace settlement in 2000, and sought unsuccessfully to mediate between Israel and Syria.

In June 2002, President George W. Bush outlined his vision of a democratic Palestine to be created alongside Israel in a three-year process.⁵⁰ U.S., European Union, Russian, and U.N. representatives built on this vision to develop the Road Map to a Permanent Two-State Solution to the Israeli Palestinian Conflict.⁵¹

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. H.Res. 143, introduced on April 12, 2007, urges the President to appoint a Special Envoy for Middle East Peace. S.Res. 224, introduced on June 7, has a similar provision.

After the Administration supported Israel's disengagement from Gaza mainly as a way to return to the Road Map, Secretary Rice personally mediated an accord to secure the reopening of the Rafah crossing between Gaza and Egypt in November 2005. Some Israelis criticized her insistence that the January 2006 Palestinian elections proceed with Hamas participating, which produced a Hamas-led government, despite the group's refusal to disavow violence or recognize Israel. The Administration later agreed with Israel's preconditions for dealing with the government. In 2007, Rice tried to get the Israelis and Palestinians to focus on what she described as a "political horizon" for the Palestinians. President Bush convened an international meeting in Annapolis, MD on November 27 to support bilateral negotiations between Israel and the Palestinians, and Secretary Rice has since traveled to the region often to urge progress.

Settlements. All recent U.S. Administrations have disapproved of Israel's settlement activity as prejudging final status issues and possibly preventing the emergence of a geographically 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., settlement blocs), 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."⁵² He later emphasized that it was a subject for negotiations between the parties.

Jerusalem. Since taking East Jerusalem in the 1967 war, Israel has maintained that united 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. In P.L. 109-102, November 14, 2005, Congress mandated that the embassy be moved to Jerusalem, but 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

⁵⁰ See [<http://www.whitehouse.gov/news/releases/2002/06/20020624-3.html>] for text of President's speech.

⁵¹ See [<http://www.state.gov/r/pa/prs/ps/2003/20062.htm>]for text of Road Map.

⁵² For text of Bush letter to Sharon, see [<http://www.whitehouse.gov>].

to prevent U.S. official recognition of Palestinian claims to the city. Those provisions are repeated in P.L. 110-161, the Consolidated Appropriations Act, 2008, signed into law on December 26, 2007.

Syrian Talks. The United States has never recognized Israel's annexation of the Golan Heights, which it views as a violation of international law. However, the Bush Administration did not attempt to revive Israeli-Syrian peace talks. Olmert and the Administration generally agreed on isolating Damascus until it ends its relations with terrorists and Iran. Yet, some in the Israeli coalition, Knesset, and press wanted their government to engage Damascus in order to distance it from an alliance with Teheran that enhances the Iranian threat to the Jewish State and believe that a peace with Syria would be easier to achieve than one with the Palestinians. Israel and Syria began indirect negotiations via Turkish mediators in May 2008. The United States is not a party to this process. The State Department spokesman said, "We don't think that any other track or any other negotiating path ought to be a substitute or a distraction from the primary set of discussions and negotiations between Israel and the Palestinians."⁵³ However, Secretary Rice said, "We would welcome any steps that might lead to a comprehensive peace in the Middle East We are working very hard on the Palestinian track. It doesn't mean that the U.S. would not support other tracks." White House spokeswoman Dana Perino added, "What we hope is that this is a forum to address various concerns that we all share about Syria – the United States, Israel, and many others – in regard to Syria's support for Hamas and Hezbollah (and) the training and funding of terrorists that belong to these organizations We believe it could help us to further isolate Iran...."⁵⁴

Democratization Policy. Some Israeli officials have questioned possible unintended consequences of the U.S. democratization policy in the Middle East, believing that it has aided extremist organizations to gain power and to be legitimized. Alarmed, they cite the examples of Hezbollah in Lebanon, Hamas in the Palestinian Authority, and the Muslim Brotherhood in Egypt.⁵⁵

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 since the FTA became effective. As noted above, qualified industrial zones in Jordan and Egypt are considered part of the U.S.-Israeli free trade area. In 2007, Israel imported \$7.8 billion

⁵³ Ashraf Khalil, "Israel's Peace Efforts Widen," *Los Angeles Times*, June 21, 2008.

⁵⁴ Cam Simpson, "Israel, Syria in Indirect Peace Talks," *Wall Street Journal*, May 22, 2008, "US Welcomes Syrian-Israeli Talks but Stresses Palestinian Track," Yahoo! News, May 21, 2008, "Rice: Israeli-Palestinian Track Most Likely to Produce Results," Associated Press, May 22, 2008.

⁵⁵ For example, head of Military Intelligence Maj. Gen. Amos Yadlin, quoted in Ahiya Raved, "Intelligence Chief: Strategic Threats on Israeli Rising," *Ynetnews*, June 20, 2006, Open Source Center Document GMP20060621746004.

in goods from the United States and exported \$18.9 billion in goods to the United States.⁵⁶

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.

Energy Cooperation. In the context of Israel's relinquishing control of Egyptian oil fields and conclusion of a peace treaty with Egypt, Israel and the United States signed a memorandum of agreement in 1979 for the United States to provide oil to Israel in emergency circumstances. Those circumstances have not arisen to date, and the agreement been extended until 2014.

P.L. 110-140, December 19, 2007, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act of 2007, calls for U.S.-Israeli energy cooperation and authorizes the Secretary of Energy to make grants to businesses, academic institutions, nonprofit entities in Israel and to the government of Israel to support research, development, and commercialization of renewable energy or energy efficiency.

Aid.⁵⁷ Israel was the largest recipient of U.S. foreign aid after 1976 and until Iraq supplanted it after 2003. 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, and concludes with FY2008. Separately from the scheduled ESF cuts, Israeli 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.

For FY2008, the Administration requested 2.4 billion in FMF and \$500,000 in International Narcotics Control and Law Enforcement (INCLE) funds for Israel. P.L. 110-161, the Consolidated Appropriations Act, 2008, signed into law on December 26, 2007, provides \$2.4 billion in FMF, of which \$631.2 million may be spent in Israel, and \$40 million for refugee assistance. The amounts may be subject to a 0.81% across the board rescission.

After meeting Prime Minister Olmert at the White House on June 19, 2007, President Bush said that a new 10-year aid agreement would be signed to ensure that Israel retains a "qualitative military edge." The President also directed Secretary of Defense Robert Gates to expedite approval of IDF procurement requests in order to replenish arms and materiel used during the 2006 war against Hezbollah in Lebanon. On August 13, U.S. Under Secretary of State Nicholas Burns and Israeli Foreign Ministry Director General Aharon Abramowitz signed a memorandum of

⁵⁶ Israeli Central Bureau of Statistics, "Summary of Israel's Foreign Trade by Country 2007," posted on Ministry of Finance website, January 20, 2008.

⁵⁷ For more details, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy Sharp.

understanding to govern a new 10-year, \$30 billion aid package. Aid will increase from \$2.4 billion in FMF in FY2008 to \$2.55 billion in FY2009, and average \$3 billion a year by the conclusion of the 10-year period. Israel is allowed to spend 26.3% of the aid in Israel; the remainder is to be spent on U.S. arms. Burns stated that “a secure and strong Israel is in the interests of the United States” and that the aid was an “investment in peace” because “peace will not be made without strength.” Congress must approve the annual appropriations.

H.R. 2642, the Supplemental Appropriations Act, 2008, was signed into law on June 30, 2008 as P.L. 110-252. It provides not less than \$170 million in FMF for Israel to be disbursed not later than November 1. For FY2009, the Administration has requested \$2.55 billion in FMF and \$30 million in Migration Assistance for Israel.

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 (for commercial loans) over three years. As of September 2006, \$4.5 billion of the guarantees were unexpended.⁵⁸ P.L. 109-472, January 11, 2007, extended the period for which the guarantees are to be provided for a second time until September 30, 2011.

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 without a treaty obligation, President Bush has said several times that the United States would defend Israel militarily in the event of an attack.⁵⁹ On May 14-14, 2008, he visited Israel to celebrate its 60th anniversary. In a speech to the Knesset, the President stated, “The alliance between our governments is unbreakable, yet the source of our friendship runs deeper than any treaty.” He told Israel that it “can always count on America to stand at its side.”

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 consultation and cooperation to enhance the national security of both countries. In November 1983, the two sides formed a Joint Political Military Group (JPMG) to implement provisions of the MOU. Joint air and sea military exercises began in June 1984, and the United States has constructed facilities to stockpile military equipment in Israel. In 2001, an annual interagency strategic dialogue, including representatives of diplomatic, defense, and intelligence establishments, was created to discuss long-term issues.

⁵⁸ See also CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy Sharp.

⁵⁹ Interview with Reuters, cited in Glenn Kessler, “Bush Says U.S. Would Defend Israel Militarily,” *Washington Post*, February 2, 2006. See also [<http://www.whitehouse.gov/news/releases/2006/05/20060523-9.html>] for transcript of joint Bush-Olmert news conference in May 2006.

In 2003, reportedly at the U.S. initiative due to bilateral tensions related to Israeli arms sales to China, the strategic dialogue was suspended. (See *Military Sales*, below.) After the issue was resolved, the talks resumed at the State Department on November 28, 2005. In January 2007, Deputy Prime Minister and Minister of Transportation, and representative for the strategic dialogue Shaul Mofaz (a former Chief of Staff and former Defense Minister) reported that the dialogue would henceforth be held four times a year. In meetings in 2008, the delegations have discussed Iran's nuclear program, diplomatic and financial steps to prevent Iran from developing nuclear capability, and concerns over Hezbollah.

Secretary of Defense Gates' visit to Israel in April 2007, the first by a U.S. Secretary of Defense in eight years, was seen as a sign that strains in the relationship had truly eased. His meetings included discussions of bilateral military-to-military relations, the peace process, Syria, Iran, and Iraq. Gates tried to assure his Israeli interlocutors that a planned U.S. arms sale to Saudi Arabia, reportedly to include satellite-guided munitions, was needed to counter the Iranian threat and would not threaten Israel's military superiority.⁶⁰

On May 6, 1986, Israel and the United States signed an agreement (the contents of which are secret) for Israeli participation in the Strategic Defense Initiative (SDI/"Star Wars"). Under SDI, Israel is developing the Arrow anti-ballistic missile with a total U.S. financial contribution so far of more than \$1 billion, increasing annually. The system became operational in 2000 in Israel and has been tested successfully. The U.S. DOD Missile Defense Agency has agreed to extend the U.S.-Israel Arrow System Improvement Program (ASIP) and post-ASIP through 2013.

P.L. 110-181, January 28, 2008, the Defense Authorization Act for FY2008, authorizes full funding of the Administration's request of \$73.5 million for the Arrow and \$7 million for the joint Short Range Ballistic Missile Defense (SRBMD), known as "David's Sling," a missile interceptor designed to thwart missiles and rockets from 40 to 200 kilometers scheduled for operational deployment in 2012. It provides an additional \$25 million to complete accelerated co-production of Arrow missiles, \$45million to continue joint development of David's Sling, and \$135 million to begin acquisition of a Thermal High Altitude Area Defense (THAAD) fire unit to provide Israel with a follow-on missile defense system of greater performance than the Arrow.

P.L. 110-116, November 13, 2007, the Department of Defense Appropriations Act, 2008, includes Sec. 8080 which appropriates \$155,572,000 for the Arrow program, of which \$37,383,000 is for producing missile components in the United States and missile components and missiles in Israel; \$20 million is for preliminary design for an upper-tier component to Israeli Missile Defense Architecture, and \$37 million for David's Sling. Israel reportedly has decided that the THAAD does not meet its range and altitude requirements and seeks to develop a new interceptor. THAAD is not mentioned in the appropriations bill. The Administration has requested

⁶⁰ David S. Cloud and Jennifer Medina, "Gates Assures Israel on Plan to Sell Arms to Saudis," *New York Times*, April 20, 2007. For more on the arms sale, see CRS Report RL34322, *The Gulf Security Dialogue and Related Arms Sale Proposals*, by Christopher M. Blanchard and Richard F. Grimmett.

\$44.9 million for David's Sling for FY2009. Israel reportedly is seeking \$150 million to develop an advanced Arrow 3 to counter a ballistic missile threat from Iran and Syria, and President Bush is said to have promised to work with Congress to obtain the funds.⁶¹

There are unconfirmed reports that Israel is seeking to buy the F-22 Raptor stealth fighter, foreign sales of which are currently banned.⁶² On June 5, 2008, House Foreign Affairs Committee Chairman Howard Berman told the *Jerusalem Post* that he would look at dropping the ban on F-22 sales.

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

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 and its Istanbul Cooperative Initiative. On October 16, 2006, Israel signed an Individual Cooperation Program (ICP) with NATO, providing for cooperation in counter-terrorism, intelligence sharing, and disaster preparedness. On February 7, 2007, Amir Peretz became the first Israeli defense minister to visit NATO headquarters in Brussels. In June, as part of the ICP, Israel agreed to joint military training and exercises with NATO to enhance interoperability, potentially leading to Israeli participation in NATO-led missions. On May 15, 2008, the House passed H.R. 5916, the Security Assistance and Arms Export Control Reform Act, 2008, by a voice vote. Among other provisions, the bill would treat Israel like NATO members for the purposes of expediting exports of essential military equipment, requires that Israel's qualitative military edge be empirically assessed on an ongoing basis, and recognizes that Israel's national security is a priority for the United States. It was referred to the Senate Committee on Foreign Relations.

Other Issues

Military Sales. In 2006, Israel earned \$4.4 billion from defense sales. India was Israel's biggest customer, with purchases totaling \$1.5 billion.

The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China. Israel reportedly is China's second major arms supplier, after Russia.⁶³ U.S. administrations

⁶¹ Yaakov Katz, "Officials: Bush Pledged Funding for Arrow 3," *Jerusalem Post*, May 20, 2008.

⁶² Yaakov Katz, "Israel Fears US will Sell F-35 to Saudis," *Jerusalem Post*, April 14, 2008.

⁶³ 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 (continued...)

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. In 2003, Israel's agreement to upgrade Harpy Killer unmanned aerial vehicles (UAVs) that it sold to China in 1999, angering the Pentagon. China tested the weapon over the Taiwan Strait in 2004. In reaction, the Department of Defense suspended the joint strategic dialogue, technological cooperation with the Israel Air Force on the F-35 Joint Strike Fighter (JSF) aircraft as well as several other 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."⁶⁴ According to the Israeli newspaper *Haaretz*, 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, Israeli Defense Minister Shaul Mofaz announced that Israel would again participate in the F-35 JSF project and that the crisis in relations was over.⁶⁵

In March 2006, a 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 July 17, 2007, the Knesset passed a Law on Control of Defense Exports to establish a new authority in the Defense Ministry to oversee defense exports and involve the Foreign Ministry for the first time in the process, among other provisions. As a result, the United States agreed to establish a High Technology Forum to institutionalize a senior-level dialogue to address bilateral high technology trade, investment, and related issues. The Israelis reportedly intend to use the Forum to convince their U.S. interlocutors to ease restrictions on the export of dual-use products to Israel. U.S. Undersecretary of Commerce for Industry and Security will meet Israeli Ministry of Defense Director-General Pinchas Buchris at the first forum in September 2008.⁶⁶

⁶³ (...continued)

Review 2004 report.

⁶⁴ "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.

⁶⁵ In September 2007, the Israeli Defense Forces announced plans to purchase at least 25 F-35 fighters, with the option to purchase 50 more planes. Defense Minister Barak reportedly submitted a formal request for the F-35's and for three to five C-130J Hercules transport aircraft in May 2008.

⁶⁶ Yaakov Katz, "Israel, US to Hold First Defense Technology Forum," *Jerusalem Post*, September 7, 2008.

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 acknowledged that Pollard had been its agent in 1998. Israeli officials repeatedly raise the Pollard case with U.S. counterparts, but no formal request for clemency is pending.⁶⁷ Pollard's Mossad recruiter Rafi Eitan, now 79 years old, is head of the Pensioners' Party and Minister for Jerusalem affairs in the current government. On June 8, 2006, the Israeli High Court of Justice refused to intervene in efforts to obtain Pollard release. On January 10, 2008, in Israel, Shas leader Eli Yishai gave President Bush letters from Pollard's current wife and from Shas spiritual leader Rabbi Ovadia Yosef pleading for Pollard's release, but White House spokesman Gordon Johndroe said that there were no plans to change Pollard's status.⁶⁸

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 was not 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. The information was about Al Qaeda, U.S. policy toward Iran, and the bombing of the Khobar Towers, a U.S. housing site in Saudi Arabia, in 1996. 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. 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 indicted under the 1917 Espionage Act for receiving classified information orally; they argue that they were exercising protected free speech and that the law was designed to punish government officials. In August 2007, a judge ruled that "the rights protected by the

⁶⁷ See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, by Richard Best and Clyde Mark.

⁶⁸ Jonathan Finer, "Bush Trip Revives Israeli Push for Pardon of Spy," *Washington Post*, January 15, 2008.

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. On November 2, the judge ruled that Secretary of State Rice and other present and former Administration officials must testify about their conversations with Rosen and Weissman to help the defense establish that “the meetings charged in the indictment were examples of the government’s use of AIPAC as a diplomatic back channel.”

The trial has been delayed. On June 20, 2008, a federal appeals court let stand a district court ruling that the prosecution had to prove that the defendants knew that the information they were relaying was classified national defense information, that it was unlawful to disclose the information, and that they had a bad-faith reason to believe that the disclosures could be used to injure the United States or to aid a foreign nation. The district court had ruled that the prosecution would have to prove that Rosen and Weissman intended to harm the United States or aid another nation by disclosing the information. At the same time, the appeals court rejected a prosecution appeal of a district court ruling that the court proceedings remain open to the public. The prosecution is scheduled to appeal the ruling.

On April 22, 2008, U.S. authorities arrested Ben-Ami Kadish, an 84-year-old U.S. citizen who had worked at the U.S. Army’s Armament Research, Development, and Engineering Center in Dover, N.J. on suspicion of giving classified documents concerning nuclear weapons, F-15 fighter jets, and the Patriot missile air-defense system to Israel between 1979 and 1985. He was charged with acting as a foreign agent and lying to the FBI. Kadish pleaded not guilty and was released on a personal recognizance bond. He is said to have worked at the center from 1963-1990 and to have reported to the same Israeli who had handled Jonathan Pollard. Pollard was charged in 1985, and the handler then left the United States. On April 23, an Israeli Foreign Ministry spokesman declared, “Since 1985, a great deal of care has gone into following the guidelines of every prime minister in Israel, which prohibit this kind of activity in the United States.”⁶⁹

Use of U.S. Arms. After the war against Hezbollah 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 in the war had violated the Arms Export Control Act, which restricts use of the weapons to military targets, or confidential bilateral agreements with the United States, which restrict use of U.S. supplies cluster munitions to certain military targets in non-civilian areas. On January 28, 2007, the State Department informed Congress of preliminary findings that Israel may have violated agreements by using cluster bombs against civilian populated areas. A final determination has not been made. Israel has denied violating agreements, saying that it had acted in self-defense. The U.N. has reported deaths and injuries in southern Lebanon from the weapons since the war ended.⁷⁰

⁶⁹ “Yossi Melman, Shahar Ilan, and Barak Ravid,” Ezra: New Spy Case Won’t Harm U.S.-Israeli Ties,” *Haaretz*, April 23, 2008.

⁷⁰ David S. Cloud and Greg Myre, “Israel May Have Violated Arms Pact, U.S. Officials (continued...) ”

P.L. 110-161, the Consolidated Appropriations Act, FY2008, signed into law on December 26, 2007, bans the use of military assistance and the issuance of defense export licenses for cluster munitions or cluster munitions technology unless the submunitions of the cluster munitions have a 99% or higher tested rate and the applicable agreement specifies that the munitions will only be used against clearly defined military targets and not where civilians are known to be present. The Administration objects to these restrictions. The Israeli Winograd Committee, which investigated the Israeli government's prosecution of its 2006 war against Hezbollah, recommended a reexamination of the rules and principles that apply to IDF use of cluster bombs because the current manner of use does not conform to international law. On May 30, 111 countries adopted a draft treaty banning the use of cluster bombs. Neither the United States nor Israel participated in the negotiations or signed the treaty. An Israeli Foreign Ministry spokesman stated, "We don't think such an absolute ban is justified, and a balance between military needs and taking into account humanitarian considerations needs to be found."⁷¹

Intellectual Property Protection. The "Special 301" provisions of the Trade Act of 1974, as amended, require the U.S. Trade Representative (USTR) to identify countries which deny adequate and effective protection of intellectual property rights (IPR). In April 2005, the USTR elevated Israel from its "Watch List" to 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 persistent piracy affecting of U.S. copyrights. In 2006, the USTR retained Israel on the Priority Watch List due to continuing concern about copyright matters and about legislation Israel had passed in December 2005 that weakened protections for U.S. pharmaceutical companies.⁷² According to Deputy Secretary of Commerce David Sampson, the U.S. government claimed that parties in Israel were making unfair use of information submitted when patented pharmaceuticals are registered in Israel and demanded that the information not be transferred to powerful Israeli generic drug companies, such as Teva. It also was concerned about software, music, and DVD piracy in Israel.⁷³ In April 2007, the USTR again kept Israel on the Priority Watch List because "Israel appears to have left unchanged the intellectual property regime that results in inadequate protection against unfair commercial use of data generated to obtain marketing approval." On May 2, the Israeli Ministry of Industry, Trade and Commerce responded that Israel had "complied completely in all areas that had been deemed lacking in the past."

In April 2008, Israel was placed on the Priority Watch list for reasons related to pharmaceuticals similar to those in 2007. However, the USTR stated that it was encouraged by recent progress in Israel on certain IPR issues and would conduct an

⁷⁰ (...continued)

Say," *New York Times*, January 28, 2007.

⁷¹ Herb Keinon, "Israel Rejects Cluster Bomb Ban," *Jerusalem Post*, June 1, 2008.

⁷² For U.S. government explanation of Israel's listing on the Priority Watch List, see *Full Version of the 2006 Special 301 Report*, April 28, 2006, accessible at [<http://www.ustr.gov>]

⁷³ Ora Coren, "U.S. Worried about Israel's Intellectual Property Laws," *Haaretz*, February 1, 2007.

out-of-cycle review to ensure further strengthening of Israel's intellectual property regime. Israel maintains that its regime fully conforms with its obligations. Some Members of Congress have written letters to the USTR urging it to remove Israel from the Priority Watch List because, they say, Israel has been more vigilant about copyright protection than other countries with less serious listings and has passed laws modeled after the North American Free Trade Agreement (NAFTA) providing greater patent protections to address the USTR's concerns, although not providing the five years of protection sought by U.S. companies.

U.S. Interest Groups

Groups actively interested in Israel and the peace process are noted below with links to their websites for information on their policy positions.

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

American Jewish Committee:
[<http://www.ajc.org/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/>]

Brit Tzedek v'Shalom (Jewish Alliance for Justice and Peace)
[<http://www.btvshalom.org/>]

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

The Israel Project:
[<http://www.theisraelproject.org/site/c.hsJPK0PIIpH/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/>]

Figure 1. Map of Israel



Source: Map Resources. Adapted by CRS.