



# Israel: Background and U.S. Relations

**Casey L. Addis**

Analyst in Middle Eastern Affairs

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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 most recent national elections were held on February 10, 2009, ahead of schedule. Although the Kadima Party placed first, parties holding 65 seats in the 120-seat Knesset supported opposition Likud party leader Benjamin "Bibi" Netanyahu, who was designated to form a government. Netanyahu's coalition includes his own Likud, *Yisrael Beiteinu* (Israel Our Home), Shas, *Habayet Hayehudi* (Jewish Home), the United Torah Judaism (UTJ), and the new Ha'atzmout (Independence) party. The coalition controls 66 of 120 Knesset seats. 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. Israel's foreign policy agenda begins with Iran, which it views as an existential threat due to Tehran's nuclear ambitions and support for terrorism. Achieving peace with its neighbors is next. Israel concluded peace treaties with Egypt in 1979 and Jordan in 1994, but not with Syria and Lebanon. Recent unrest in Egypt is rekindling latent anxiety in Israel about the durability of the peace treaty Egypt and Israel have relied upon for 30 years. Israel unilaterally ended its 18-year occupation of Lebanon by withdrawing from the south Lebanon in 2000. Syrian occupation forces remained until 2005, but its proxy Hezbollah remains in Lebanon and sparked a 34-day war when it kidnapped two Israeli soldiers on July 12, 2006. A cease-fire monitored by the enhanced United Nations Forces in Lebanon (UNIFIL) is holding. Syria-Israel negotiations reached an impasse in 2000, were partially revived through Turkish mediation, and have stagnated. Israel negotiated a series of agreements with the Palestinians in the 1990s, but that process ended in 2000. It resumed talks with the Palestine Liberation Organization (PLO) in June 2007, after Palestinian Authority (PA) President and PLO Chairman Mahmud Abbas dissolved an Hamas-led unity government in response to the group's takeover of the Gaza Strip. The Obama Administration's Special Envoy for Middle East Peace, former Senator George Mitchell, is trying to restart the Israeli-Palestinian peace process.

Since 1948, the United States and Israel have developed a close friendship based on common democratic values, religious affinities, and security interests. U.S.-Israeli bilateral relations are multidimensional. The United States is the principal proponent of the Arab-Israeli peace process, but U.S. and Israeli views differ on some issues, such as the Golan Heights, Jerusalem, and settlements. Israel and the Bush Administration enjoyed particularly close relations. The latter and Congress supported Israel's 2006 military campaigns against Hezbollah and Hamas and Israel's 2008/2009 offensive against Hamas as acts of self-defense. Shortly after taking office in January 2009, President Obama stated that he considers Israel to be a strong ally of the United States. Yet relations have sometimes appeared strained as Administration officials and the Netanyahu government have differed markedly over how to resume the peace process. The United States and Israel concluded a free-trade agreement in 1985. Israel is among the leading recipients of U.S. foreign aid and the two countries also have close security relations. Other issues in U.S.-Israeli relations include Israel's military sales, inadequate Israeli protection of U.S. intellectual property, and espionage-related cases. See also CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz, CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp, and CRS Report R41618, *Israel's Offshore Natural Gas Discoveries Enhance Its Economic and Energy Outlook*, by Michael Ratner.

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## Recent Developments

### Response to the Situation in Egypt<sup>1</sup>

For more than 30 years, the United States and Israel have based their core assumptions about the basic stability of the Middle East and the absence of major Israeli-Arab conventional warfare on the cornerstone of the March 1979 Egyptian-Israeli peace treaty (see text box). The Israeli government is concerned that its quiet, though cold, peace with Egypt may suffer as a result of ongoing political change in Cairo. Some Israelis believe that a more pluralistic government in Egypt might revisit aspects of Egypt's cooperation with Israel and the treaty itself, particularly if the Muslim Brotherhood gains influence. It is unlikely that any transitional or new Egyptian government would abrogate the peace treaty altogether, but popular sympathy for Palestinian rights and challenges to Egyptian control of the Sinai Peninsula could make it difficult for Egypt to continue restrictions and counter-smuggling efforts at its border with the Gaza Strip. In addition, it is uncertain if the next president of Egypt would try to serve as an intermediary between Israelis and Palestinians and between the Palestinian Authority and Hamas. The structure and constitutional order of a new Egyptian government may remain unclear for some time. In the future, Egypt may behave more as Turkey has over the past year and take a more confrontational approach with its neighbor Israel, which could have uncertain consequences for U.S. regional interests.

Initial Israeli responses to the protests in Egypt were measured. Israeli Prime Minister Benjamin Netanyahu reportedly has told his cabinet and spokespeople to avoid commenting on the situation in Egypt to avoid linking Israel with the events. In a meeting on January 30, Netanyahu urged his cabinet to "show maximum responsibility and restraint" and expressed his hopes that peaceful relations with Egypt will continue. As the protests wore on and it became clear that a transition in Egypt was imminent, the Foreign Ministry reportedly asked Western governments to tone down their criticisms of Mubarak and later asked that they demand that any new Egyptian government

#### What is at Stake? The Israel-Egypt Peace Treaty

The peace treaty between Israel and Egypt was signed on March 26, 1979. In addition to ending the state of war between the two countries, it also included a number of political, military and economic arrangements:

- Israel will withdraw all its armed forces and civilians from the Sinai, and Egypt will resume the exercise of its full sovereignty over the Sinai.
- The permanent boundary between Egypt and Israel in the recognized international boundary between Egypt and the former mandated territory of Palestine, without prejudice to the issue of the status of the Gaza Strip.
- Ships of Israel, and cargoes destined for or coming from Israel, shall enjoy the right of free passage through the Suez Canal.
- The Parties consider the Strait of Tiran and the Gulf of Aqaba to be international waterways open to all nations for unimpeded and nonsuspendable freedom of navigation and overflight.
- The Parties agree to remove all discriminatory barriers to normal economic relations and to terminate economic boycotts of each other upon completion of the interim withdrawal.
- The Parties agree to establish normal cultural relations following completion of the interim withdrawal.
- Mutual unimpeded access to places of religious and historical significance will be provided on a non-discriminatory basis.
- The Parties will cooperate in promoting peace, stability and development in their region. Each agrees to consider proposals the other may wish to make to this end.

The full text of the treaty is available online at <http://www.mfa.gov.il/MFA/Peace%20Process/Guide%20to%20the%20Peace%20Process/Israel-Egypt%20Peace%20Treaty>.

<sup>1</sup> For more information on the situation in Egypt, see CRS Report RL33003, *Egypt: The January 25 Revolution and Implications for U.S. Foreign Policy*, by Jeremy M. Sharp.

uphold its existing agreements with Israel.<sup>2</sup> In a speech to the Knesset on February 3, Netanyahu expressed his support for a democratic transition in Egypt, stating that “It is clear that an Egypt that rests on these institutions, an Egypt that is anchored in democratic values, would never be a threat to peace. On the contrary, if we have learned anything from modern history, it is that the stronger the foundations of democracy, the stronger the foundations of peace. Peace among democracies is strong, and democracy strengthens the peace.” He also expressed concerns that Iran might seek to exploit the situation in Egypt to expand its regional influence:

However, this is not the only possible scenario. Because far away from Washington, Paris, London—and not so far from Jerusalem—is another capital in which there are hopes. In this capital, there are leaders who can also see the opportunities that change in Egypt could bring. They also support the millions who took to the streets. They too speak about the promise of a new day. But for the people in this capital, the promise of a new day is not in its dawn but in the darkness it can bring. That capital is Tehran, and I assure you, that the leaders in Iran are not interested in the genuine desires of Egyptians for freedom, liberalization or reform, any more than they were interested in answering similar calls for freedom by the Iranian people, their own people, only 18 months ago.<sup>3</sup>

Netanyahu and other prominent Israeli cabinet members also have reaffirmed their commitment to the Palestinian peace process in the wake of the crisis, and some observers think that uncertainty about Israel’s future relationship with Egypt and Jordan could lead to a renewed commitment to the Palestinian track. For example, former Defense Minister and senior figure within the opposition Kadima party Shaul Mofaz has argued that, “Because of the strategic change in our region, we have to move forward with the Palestinians. ... We have to do our best to restart negotiations with the Palestinians and with Syria as well.”<sup>4</sup> On February 4, international Quartet<sup>5</sup> Special Representative Tony Blair and Prime Minister Netanyahu announced a series of gestures that Israel will make to the Palestinians, including a promise by the Israeli government that it will “encourage the implementation of all projects that abide by municipal regulations that will improve infrastructure there for Palestinians, including in particular housing, starting with two projects in East Jerusalem.” Israel reportedly hopes that these overtures will lead the Palestinian leadership to abandon its preconditions for negotiations.<sup>6</sup>

For more information on Israel-Egypt relations, see “Egypt ” below.

## **Lebanon: Government Collapse and New Cabinet Negotiations<sup>7</sup>**

In anticipation of looming indictments and in response to Lebanese Prime Minister Saad Hariri’s refusal to denounce the Special Tribunal for Lebanon (STL)<sup>8</sup>, Hezbollah and its allies withdrew

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<sup>2</sup> Slomo Avineri, “Here’s What Netanyahu Must Tell the Egyptian People,” and Barak Ravid, “Israel Urges West: Make Sure New Egypt Regime Honors Peace Deal, *Haaretz.com*, February 2, 2011.

<sup>3</sup> “Netanyahu’s Speech, Whither Egypt,” *Jerusalem Post*, February 3, 2011.

<sup>4</sup> See U.S. Open Source Center Document GMP20110202746008, “Israel’s Netanyahu: Demonstrations in Egypt May Affect Peace Talks with PA, *Jerusalem Post Online*, February 2, 2011.

<sup>5</sup> The Quartet includes the United States, European Union, United Nations, and Russia.

<sup>6</sup> Barak Ravid, “Netanyahu Commits to Promoting Arab Construction in East Jerusalem,” *Haaretz.com*, February 4, 2011.

<sup>7</sup> For more information, please see CRS Report R40054, *Lebanon: Background and U.S. Relations*, by Casey L. Addis, CRS Report R40485, *U.S. Security Assistance to Lebanon*, by Casey L. Addis, and CRS Report R41446, *Hezbollah: Background and Issues for Congress*, by Casey L. Addis and Christopher M. Blanchard.

from the cabinet on January 13, forcing the government's collapse. On January 25, Hezbollah and its allies nominated former Prime Minister Najib Miqati to replace Hariri as Prime Minister. Miqati was approved by a parliamentary vote of 68 in favor to 60 opposed. Many analysts agree that Miqati's nomination likely came after he agreed to Hezbollah's demands on the STL, and that Hezbollah's actions amount to a coup that tilts the balance of political power firmly in Hezbollah's favor. In response, Hariri's supporters staged a number of protests, and the situation in Lebanon remains tenuous.<sup>9</sup> Israeli officials have remained quiet on the events in Lebanon, likely to avoid fueling Hezbollah's accusations that Israel is behind the STL. It is possible that recent events will not change the fundamentals of Israeli policy toward Lebanon. After the 2006 war between Israel and Hezbollah, Israel reevaluated its policy and determined that in any future conflict the Lebanese government would be held responsible for the actions of all Lebanese actors. Looming political transition in Egypt and mounting protests in Jordan, however, have led to Israeli fears that the situation along its border with Lebanon could become the rule, rather than the exception. For additional background, see "Lebanon" below.

## Leaked Palestinian Papers

Beginning on January 23, 2011, Qatar-based satellite television network *Al Jazeera* published over 1,600 leaked diplomatic papers (dubbed the "Palestine Papers") related to Israel, the Palestinians, and the peace process on its website. The papers reportedly reveal details about:

- the Palestinian Authority's (PA) willingness to concede Israeli settlements in East Jerusalem, and to be "creative" about the status of the Haram al Sharif/Temple Mount;
- the compromises the Palestinian Authority was prepared to make on refugees and the "right of return" to Israel for Palestinian refugees;
- details of the PA's security cooperation with Israel; and
- private exchanges between Palestinian and American negotiators in late 2009, when the Goldstone Report<sup>10</sup> was being discussed at the United Nations.

Initial reactions on all sides have been varied. Palestinian leaders, including President Mahmoud Abbas and then-lead Palestinian negotiator Saeb Erekat, have spoken out in defense of their actions and questioned the veracity of the documents. Israeli officials have downplayed the significance of the release, saying that they would not comment on confidential negotiations or Palestinian interpretations, whether or not they are accurate.<sup>11</sup> State Department spokesman Philip J. Crowley said on January 24 that while Washington cannot confirm the veracity of the

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(...continued)

<sup>8</sup> The Special Tribunal for Lebanon was established to investigate the 2005 assassination of former Lebanese Prime Minister Rafiq Hariri and others. For more information, see <http://www.stl-tsl.org/section/AbouttheSTL>.

<sup>9</sup> "Hariri Refuses to Join Government Headed by Hizbullah," Naharnet, January 24, 2011. See also, "After Riots and Rage, Lebanon is ready to move on," *Haaretz.com*, January 27, 2011

<sup>10</sup> The Goldstone Report addresses possible Israeli and Palestinian human rights violations during the 2008-2009 conflict in Gaza ("Operation Cast Lead").

<sup>11</sup> Avi Issacheraroff, "Palestinian Papers Hardly Likely to Spur a Revolution," *Haaretz.com*, January 24, 2011.



documents, it also would not “deny that this release will, at least for a time, make the situation more difficult than it already was.”<sup>12</sup>

## **Shepherd Hotel Demolition**

On Sunday, January 8, the historic Shepherd Hotel in East Jerusalem was demolished to make room for new Israeli settlement construction over objections from the U.S. government. U.S. Secretary of State Hillary Clinton stated, “this disturbing development undermines peace efforts to achieve the two-state solution. In particular, this move contradicts the logic of a reasonable and necessary agreement between the parties on the status of Jerusalem.”<sup>13</sup> Israeli Prime Minister Benjamin Netanyahu defended the demolition, stating that “actions taken at the Shepherd Hotel were done by private people corresponding with Israeli law,” and adding that “the Israeli government was not involved in the events.” The new construction reportedly is being funded by Irving Moskowitz, a Jewish-American businessman and a longtime patron of Jewish settlers.<sup>14</sup> The demolition was cited by many observers as epitomizing the ongoing intractable debate between Israel, the United States, and the Palestinian leadership over the legitimacy of Israel’s settlements and Jerusalem policies and the role of the policies as an obstacle to the peace process. For more information, see “Settlements” below.

## **Natural Gas Discoveries<sup>15</sup>**

In December 2010, Noble Energy, a U.S. independent energy company, reconfirmed its estimates for its third, and largest, natural gas discovery off the northern coast of Israel. The Leviathan field has an estimated gross resource base of 16 trillion cubic feet (tcf) of natural gas. Noble Energy estimates that its three natural gas discoveries—Tamar, Dalit, and Leviathan—have 25 tcf of gross resources.<sup>16</sup> Israel’s natural gas reserves prior to the Noble Energy discoveries were estimated at 1.5 tcf or about 16 years worth at current production levels. The discoveries could have substantial implications for Israel’s domestic energy sector and Israel’s energy security. The announcements by Israel and Noble Energy of significant natural gas discoveries prompted Lebanese leaders to raise concerns that the natural gas fields are at least partially in Lebanese waters. Lebanon and Israel have never defined their maritime border. Beirut has appealed to the United Nations (U.N.), particularly the U.N. Interim Force in Lebanon (UNIFIL), to intervene in defining the maritime border, but the U.N. has thus far declined.<sup>17</sup> For additional background, see “Scientific and Business Cooperation” below.

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<sup>12</sup> U.S. State Department, Middle East Digest, January 24, 2011, <http://www.state.gov/r/pa/ei/mideastdigest/janapr/155162.htm>.

<sup>13</sup> Press Statement, U.S. Department of State, January 9, 2011, <http://www.state.gov/secretary/rm/2011/01/154160.htm>.

<sup>14</sup> “Netanyahu: Building on Site of East Jerusalem Hotel Corresponds with Israeli law,” *Haaretz.com*, January 10, 2011.

<sup>15</sup> For more information, see CRS Report R41618, *Israel’s Offshore Natural Gas Discoveries Enhance Its Economic and Energy Outlook*, by Michael Ratner.

<sup>16</sup> Noble Energy Announces Significant Discovery at Leviathan Offshore Israel, Nobel Energy Press Release, December 29, 2010, <http://www.nobleenergyinc.com>.

<sup>17</sup> Neal Sandler, *U.N. rejects call to delineate the Lebanese-Israeli maritime border*, *Platts*, January 5, 2011.

## Historical Overview of Israel<sup>18</sup>

The quest for a modern Jewish homeland coincided 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 added 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 has also dealt with the threat of Palestinian terrorism. In 1979, Israel concluded a peace treaty with Egypt followed in 1994 by a peace treaty with Jordan, thus making another multi-front war unlikely. Israel's current relations with its neighbors are discussed in the "Foreign Policy" section below.

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<sup>18</sup> For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York: Knopf, 1996.

Figure I. Map of Israel



Source: Map Resources. Adapted by CRS.

## **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 President designates the leader of the party with the most seats in parliament or the one with the best chance to form a stable government as Prime Minister. 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 major parties to seek the support of smaller parties to form and maintain 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 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. Since Israel's founding, the average life span of an Israeli government has been about 22 months. In recent years, the peace process, debates over 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. Israel has an independent judiciary, with a system of magistrates courts and district courts topped by a Supreme Court.

Israel has a relatively complicated legislative process. A minister presents a government bill to the Speaker, who places it on the table. The minister then explains the bill and it is debated. At the end of the first reading, the Knesset can reject the bill or refer it to committee to prepare for a second reading. A committee returns the bill to the Knesset and its chairman opens debate on a second reading. A bill then is voted on article by article. It may be returned to committee for further work based on what had transpired in the second reading or immediately be put to a vote in third reading. The government may withdraw a bill until it is adopted in third reading.

### **The 2009 Elections and Current Government**

A series of scandals beginning in 2007 led to early elections held on February 10, 2009. The Kadima party led by Tzipi Livni surprised many with a strong finish and first place showing. Labor and Meretz voters defected to Kadima as the voice for peace and best option to counter Likud. However, those three parties combined won a total of only 55 seats. On February 20, 2009 President Peres asked Likud party leader Benjamin Netanyahu to form a government, giving him six weeks or until April 3 to find 61 votes in the Knesset (parliament). On March 31, Prime Minister Netanyahu presented a potentially unwieldy government of 30 ministers and seven deputy ministers, resulting from the deals he had made to form the coalition. The Knesset approved the government with 69 votes; 5 dissident Labor MKs abstained.

Table I. Parties in the Knesset, 2011

| Seats | Party  | Orientation and Views  | Coalition or Opposition |
|-------|--|--|-------------------------|
| 28    | Kadima   | Centrist; a Palestinian state must be established to ensure that Israel remains a democratic, Jewish state   | Opposition              |
| 27    | Likud  | Rightist; negotiate economic peace before a permanent “arrangement” with the Palestinians  | Coalition               |
| 15    | Yisrael Beiteinu (Israel Our Home)   | Russian-speakers; Rightist; Nationalist; Secular; a Palestinian state to be established only if Israeli Arabs and their territory are exchanged for Jewish settlers and settlements  | Coalition               |
| 11    | Shas   | Sephardi; Ultra-orthodox;; seeks more social welfare and education funds; opposes “division” of Jerusalem by ceding the east for a Palestinian capital   | Coalition               |
| 8     | Ha'avoda (Labor)   | Leftist; Social-democrat; a Palestinian state should be established alongside a Jewish state   | Opposition              |
| 5     | Ha'atzmout (Independence)  | Labor party under Ehud Barak <sup>a</sup>  | Coalition               |
| 5     | United Torah Judaism (UTJ) <sup>b</sup>  | Ashkenazi; Ultra-orthodox; opposes separation of religion and state and drafting of ultra-orthodox young men into the military; advocates application of more Jewish law in the state; seeks more social welfare and education funds   | Coalition               |
| 4     | National Union (NU) <sup>c</sup>   | Nationalist; Ashkenazi Orthodox; opposes establishment of another (Palestinian) state west of the Jordan River; for annexation of territories captured in 1967, legalization of unauthorized outposts, and building of new settlements | Opposition              |
| 4     | Hadash (Democratic Front for Peace and Equality)                               | Israeli-Arab; Communist; for withdrawal to 1967 borders; for separation of religion and the state  | Opposition              |
| 4     | Ra'am-Ta'al (United Arab List)   | Israeli-Arab; Islamist; for withdrawal to 1967 borders and the creation of a Palestinian state   | Opposition              |
| 3     | Habayet Hayehudi (Jewish Home)-New National Religious Party (NRP) <sup>c</sup> | Nationalist; Ashkenazi Orthodox; opposes a Palestinian state; settlements should remain under Israeli sovereignty  | Coalition               |
| 3     | Balad (National Democratic Assembly)   | Israeli-Arab; leftist; for an Israeli state that is not Jewish in character alongside a Palestinian state  | Opposition              |
| 3     | New Movement/Meretz  | Leftist; Civil libertarian; Secular; peace activists for withdrawal to 1967 borders  | Opposition              |

a. Ehud Barak and 4 other members broke from the Labor party on January 17, 2011, and formed the new Ha'atzmout (Independence) party. The break came after the Labor party threatened to leave Prime Minister Netanyahu's coalition due to the stalled peace process. The Independence party stayed with the coalition, while the remaining members of the Labor party broke with it. The split allowed Netanyahu to keep a majority coalition (66 of 120 Knesset Members) and allowed Barak to avoid backlash from within his own party. See Daniel Levy, “A Requiem for Israel's Labor Party,” *Foreign Policy online*, January 17, 2011.

b. Includes Degel HaTorah and Agudat Yisrael.

c. Previously aligned as NU/NRP for a combined 9 seats; NU and Jewish Home split over a joint electoral list.

**Table 2. Key Cabinet Ministers**

| <b>Post(s)</b>  | <b>Incumbent</b>   | <b>Party</b>     |
|---|--------------------|------------------|
| Prime Minister, Minister of Economic Strategy, Minister of Pensioner Affairs, Minister of Health, and Minister of Science, Culture, and Sport | Benjamin Netanyahu | Likud            |
| Vice Premier, Minister for Regional Development, Minister for Development of the Negev and Galilee  | Silvan Shalom      | Likud            |
| Vice Premier, Minister-designate for Strategic Affairs  | Moshe Ya'alon      | Likud            |
| Deputy Prime Minister, Minister of Foreign Affairs <sup>a</sup>   | Avigdor Lieberman  | Yisrael Beiteinu |
| Deputy Prime Minister, Minister of Defense  | Ehud Barak         | Independence     |
| Deputy Prime Minister, Minister of Interior   | Eli Yishay         | Shas             |
| Minister of Finance   | Yuval Steinitz     | Likud            |

a. Also in charge of strategic dialogues with the United States and Russia.

## Economy

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 loans and contributions from the Jewish diaspora.

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%. When Benjamin Netanyahu was Finance Minister under Prime Minister Sharon, 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 had widened the national income gap and increased the underclass.

**Table 3. Basic Facts**

|                                    |  |
|------------------------------------|--|
| Population                         | 7.354 million (July 2010 est.) (includes an estimated 187,000 settlers in the West Bank (2009 est.), 19,100 in the Golan Heights (2008 est.), and approximately 192,800 in East Jerusalem (2008 est.)) |
| Jews                               | 75.5%  |
| Arabs                              | 23.6%  |
| Gross Domestic Product growth rate | 3.4% (2010 est.)   |
| GDP per capita                     | \$29,500 (2010 est.)   |
| Unemployment rate                  | 6.4% (2010 est.)   |
| Population below poverty line      | 23.6% (2007 est.)  |
| Inflation rate                     | 2.6% (2010 est.)   |
| Military expenditures              | 6.3% GDP (2009 est.)   |
| External debt                      | \$89.68 billion (December 2010 est.)   |
| Exports                            | \$54.31 billion (2010 est.)  |
| Export commodities                 | machinery and equipment, software, cut diamonds, agricultural products   |
| Export partners                    | U.S. 35%, Hong Kong 6%, Belgium 4.95%, (2009)  |
| Imports                            | \$55.6 billion (2010 est.)   |
| Import commodities                 | raw materials, military equipment, investment goods, rough diamonds  |
| Import partners                    | United States 12.35%, China 7.43%, Germany 7.10%, Switzerland 6.94%, Belgium 5.42%, Italy 4.49%, United Kingdom 4.03%, Netherlands 3.98% (2009)  |

**Source:** CIA, *The World Factbook*, February 8, 2011, Israeli Central Bureau of Statistics, December 31, 2009.

## Foreign Policy

### Iran

Israeli officials state that Iran will pose an existential threat to Israel if it achieves nuclear weapons capability.<sup>19</sup> 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. Iran reportedly possesses missiles capable of delivering a warhead to Israel.<sup>20</sup> Israeli

<sup>19</sup> One Israeli analyst challenges the existential threat argument, maintaining that "Iran seeks nuclear weapons in order to deter" others from attacking it and that "if Iran is not attacked, it will not attack. He also suggests that "Iran's goal is primarily to boost its influence in the Muslim World." And that, aside from the United States, "no other country possessing nuclear weapons has used them." Gabi Sheffer, "Nuclear Iran Wouldn't Pose Existential Threat to Israel," <http://www.haaretz.com>, July 24, 2009.

<sup>20</sup> Iran's arsenal includes the Shahab-3, a single-stage, liquid-fueled missile, with a range of up to 1,200 miles, and the two-stage, solid-fuel Sajjil-2 missile, with a range of 1,200 miles to 1,500 miles, which was test-fired on May 20, 2009.

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 when it destroyed Iraq's reactor at Osirak in a military strike in 1981 or when it struck a presumed nuclear site in Syria in 2007.

For several years Israel and the United States differed in their forecasts of when Iran will acquire nuclear arms. Israeli officials challenged some of the Key Judgments 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 Tehran at a minimum is keeping open its options to develop nuclear weapons."<sup>21</sup> 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."<sup>22</sup>

The prospect of Barack Obama's presidency may have produced a shift in Israeli views regarding policy toward Iran. In November 2008, the head of Israeli military intelligence, Maj. Gen. Amos Yadlin, said, (U.S.) "(r)approchement with Iran, while insisting on clearly defined parameters for the halting of the Iranian nuclear program, isn't necessarily negative. If it succeeds, it will stop the Iranian nuclear program, and, if it fails, it will strengthen the understanding that sanctions and the diplomatic efforts against Iran must be bolstered."<sup>23</sup> Some commentators suggested that Israeli threats of military action have been undercut by the difficulty in destroying the Iranian nuclear program, the havoc strikes could cause to an already fragile world economy, and the likelihood that Iran would retaliate against the United States by targeting its forces in Iraq and Afghanistan.<sup>24</sup> Yet, in its annual work plan for 2009, the Israeli Defense Forces officially defined Iran as "a threat to the existence of the State of Israel."<sup>25</sup>

The U.S. view—shared by major allies—is that sanctions should target Iran's energy sector that provides about 80% of government revenues, and try to isolate Iran from the international financial system. In the 111<sup>th</sup> Congress, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA, P.L. 111-195) expanded existing sanctions significantly to try to restrict Iran's ability to make or import gasoline. CISADA also adds a broad range of other measures further restricting the already limited amount of U.S. trade with Iran and restricting some high technology trade with countries that allow WMD-useful technology to reach Iran.<sup>26</sup>

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<sup>21</sup> National Intelligence Council, National Intelligence Estimate, *Iran: Nuclear Intentions and Capabilities*, November 2007. Only the "Key Judgments" 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. Judgments of moderate confidence are credibly sourced and plausible.

<sup>22</sup> Stephen Erlanger and Isabel Kershner, "Israel Insists That Iran Still Seeks a Bomb," *New York Times*, December 5, 2007.

<sup>23</sup> Speech at Tel Aviv University, quoted by Josh Mitnick, "Israel Warms to Obama's Pledge of Talks with Iran," *Washington Times*, November 26, 2008.

<sup>24</sup> *Ibid.*

<sup>25</sup> Alex Fishman, "Existential Threat," *Yedi'ot Aharonot*, February 16, 2009, Open Source Center Document GMP20090216741001.

<sup>26</sup> For more information on Iran sanctions, see CRS Report RS20871, *Iran Sanctions*, by Kenneth Katzman.



Most observers agree that the sanctions have been somewhat effective, but some still question whether sanctions can deter Iran from its nuclear program. As time has gone on and Iran has continued to demonstrate an unwillingness to compromise, experts express greater concern over the potential for a strategic strike on Iran by Israel. Recent reports suggest that Israeli officials view a nuclear-armed Iran as an existential threat and have repeatedly refused to rule out the possibility that Israel might strike Iran's nuclear infrastructure.<sup>27</sup> Similar Israeli comments generated assessments by then-CENTCOM Commander General Petraeus that Israel has become so frightened by a prospect of a nuclear Iran that it might decide to launch a strike on Iran's nuclear facilities. Adding to the prospects for this scenario, in mid-June 2008, Israeli officials confirmed reports that Israel had practiced a long-range strike such as that which would be required.

Taking a position similar to that of the George W. Bush Administration, senior U.S. officials have visited Israel throughout 2010 (including Vice President Biden in March 2010) in part to express the view that the Obama Administration is committed to strict sanctions on Iran—with the implication that Israeli military action should not be undertaken. Others say that Israeli urgency had abated as of the end of 2010 because of shared U.S.-Israeli assessments that an Iranian nuclear weapons capability is not imminent.

It is unclear what effect, if any, unrest and political transition in Egypt will have on Israeli calculations about the relative strength of Iran in the region. Israeli leaders have highlighted statements by Iranian leaders that actively encourage the toppling of the Egyptian government and seek to portray unrest as a rejection of longstanding Egyptian foreign policies including its peace treaty with Israel.

### **Palestinian Authority<sup>28</sup>**

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 in 2001 and during the second *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 after Arafat's death in November 2004 and the election of Mahmud Abbas as President of the PA in January 2005.

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 Bank territory to separate Israelis and Palestinians and prevent terrorists from entering Israel. Palestinians object to the barrier being built on their territory. The barrier is taking the form of a future border between Israel and Palestine and cuts Palestinians off from East Jerusalem and, in some places, from each other and some of their land.

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<sup>27</sup> Jeffrey Goldbert, "Point of No Return," *The Atlantic*, September 2010, <http://www.theatlantic.com/magazine/archive/2010/09/the-point-of-no-return/8186/>.

<sup>28</sup> See also CRS Report RL34074, *The Palestinians: Background and U.S. Relations*, by Jim Zanotti and CRS Report R40092, *Israel and the Palestinians: Prospects for a Two-State Solution*, by Jim Zanotti.

The Israeli government reluctantly and conditionally 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 in 2003.<sup>29</sup> 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. President Abbas initially preferred to include terrorist groups such as Hamas in the Palestinian 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.

In his inaugural address to the Knesset on March 31, 2009, Prime Minister Netanyahu vowed that his government would seek to attain peace with the PA on

three parallel channels: economic, security and diplomatic. We aspire to assist the accelerated development of the Palestinian economy, as well as of its economic ties with Israel. We will support a Palestinian security apparatus that will fight terror and we will conduct continuous peace negotiations with the Palestinian Authority with the aim of reaching a permanent arrangement.... (W)e don't want to rule over the Palestinians. Under the permanent arrangement, the Palestinians will have all the authorities to govern themselves, except those threatening the existence and security of the State of Israel.<sup>30</sup>

Netanyahu avoided reference to a Palestinian state. Ostensibly under considerable pressure from the Obama Administration, Netanyahu confirmed for the first time on June 14, that Israel would accept the establishment of a Palestinian state.<sup>31</sup> However, he also demanded that the Palestinians recognize Israel as the nation-state of the Jewish people, that the problem of the Palestinian refugees be solved outside of Israel, that any future Palestinian state remain effectively demilitarized, that a peace treaty end the conflict, and that it be guaranteed by the international community led by the United States. Netanyahu said that his "principles" are not preconditions for negotiations and called for the immediate commencement of talks. U.S. officials welcomed Netanyahu's endorsement of the goal of a Palestinian state and said that his conditions were what negotiations are about. Palestinian negotiators charged that the Prime Minister had taken all final status issues off the table. PA President Abbas has demanded that Israel halt all settlement activities and accept the 1967 borders as "terms of reference" before talks begin. Netanyahu has rejected preconditions and called for comprehensive discussions.

For more information on the Israeli-Palestinian peace process, see "Peace Process," below.

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<sup>29</sup> For text, see <http://www.state.gov/r/pa/prs/ps/2003/20062.htm>.

<sup>30</sup> Address to the Knesset by Prime Minister-designate Binyamin Netanyahu introducing Israel's 32<sup>nd</sup> Government, Channel 10 Television, March 31, 2009, Open Source Center Document GMP20090331738004.

<sup>31</sup> Text of the speech at Bar Ilan University is available at <http://www.pmo.gov.il>.

## Egypt<sup>32</sup>

For more than 30 years, the relationship between Egypt and Israel has been based on the cornerstone of the March 1979 Egyptian-Israeli peace treaty. Political transition in Egypt has the potential to alter this calculus and has led to speculation and fear among Israeli officials and some U.S. observers.

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 what it regarded as 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. Former Egyptian President Hosni Mubarak visited Israel only once—for the funeral of Prime Minister Yitzhak Rabin. 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-Israel and occasionally anti-Semitic rhetoric.

Under Mubarak, the Egyptian government often played 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 has supported President Mahmud Abbas generally in order to ensure that there is a Palestinian partner for peace negotiations with Israel. 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. It sought both to undermine Hamas and to avoid being inundated by thousands of fleeing Gazans. Egypt also worked to revive the Fatah-Hamas unity government. Then-Egyptian intelligence chief Omar Suleiman mediated the June 2008 Israel-Hamas cease fire and indirect talks between Israel and Hamas on a prisoner exchange for Israeli Cpl. Gilad Shalit, whom Hamas captured in June 2006.

Egypt deployed 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 would have sufficed to do the job, if there is the will. Israeli officials repeatedly expressed frustration with Egypt's failure to control arms-smuggling into Gaza. 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 certified 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 Ahmed Aboul Gheit blamed

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<sup>32</sup> See also, CRS Report RL33003, *Egypt: The January 25 Revolution and Implications for U.S. Foreign Policy*, by Jeremy M. Sharp.

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.<sup>33</sup>

In December 2009, Egypt confirmed plans to build an underground steel barrier along its border with Gaza to prevent the construction of tunnels used to smuggle arms and other goods to Hamas and other Gazans. While most observers believe that Egypt viewed this measure as necessary for its own national security, many Egyptians and others in the Arab world criticized Mubarak for helping to enforce Israel’s blockade of the Gaza Strip.

Egyptian-Israeli relations have also had an economic dimension. 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. In June 2009, Egypt agreed to increase the volume of gas exported to Israel by 50% after an agreement on increasing the price.

### **Jordan**<sup>34</sup>

Israel and Jordan signed a peace treaty in October 1994 and exchanged ambassadors, although Jordan did not have an ambassador in Israel during most of the *intifadah*. Relations have developed with trade, cultural exchanges, and water-sharing agreements. Since 1997, Jordan and Israel have collaborated in creating 13 qualified industrial zones (QIZs) to export jointly produced goods to the United States duty-free under the U.S.-Israel Free Trade Agreement (FTA). 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. Jordanian policy toward Israel may become subject to greater or more frequent public debate in Jordan if current Jordanian government efforts to respond to popular discontent result in an opening of the political system.

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. (Jordanians of Palestinian origin comprise an estimated 55% to 70% of the population of Jordan.)<sup>35</sup> He is one of the strongest proponents of the Arab Peace

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<sup>33</sup> “Egypt Warns Israel not to Undermine Ties to U.S.,” Reuters, December 31, 2007.

<sup>34</sup> 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, Jeremy M. Sharp, and Alfred B. Prados.

<sup>35</sup> Speculation over the ratio of East Bankers to Palestinians (those who arrived as refugees and immigrants since 1948) in Jordanian society tends to be a sensitive domestic issue. Jordan last conducted a national census in 2004, and it is unclear whether or not the government maintains such statistics. Over time, intermarriage has made it more difficult to discern distinct differences between the two communities, though divisions do persist.

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.

After Hamas took over Gaza in June 2007, speculation revived concerning a possible union between Jordan and the West Bank, which some Israelis 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.”<sup>36</sup> 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<sup>37</sup>**

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 the region by applying Israeli law there. There are 42 Israeli settlements and over 19,000 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. Israel views the last demand as “of supreme strategic interest” because it would sever Iran’s access to Israel’s border via its Syrian partners.<sup>38</sup>

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 feared that anarchy or extreme Islamist elements might follow Asad and preferred him to stay in power in a weakened state. On December 1, 2005, 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 peace with Israel, and supplies the Lebanese Hezbollah organization with Syrian and Iranian weapons. After the June 25, 2006, Palestinian attack on Israeli forces and kidnapping 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, 2006, 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

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<sup>36</sup> 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.

<sup>37</sup> See also CRS Report RL33487, *Syria: Issues for the 112<sup>th</sup> Congress and Background on U.S. Sanctions*, by Jeremy M. Sharp.

<sup>38</sup> “PM Olmert’s Speech at the Institute for National Security Studies Annual Conference,” (Israeli) Government Press Office, Open Source Center Document GMP20081219735004.

to those against Hezbollah in Lebanon and Hamas in Gaza. U.S. officials demanded that Syria influence Hezbollah to end the conflict; however, Syrian officials unsuccessfully sought a broader resolution that would include a revival of a peace process to produce the return of the Golan Heights.

The United States has never recognized Israel's annexation of the Golan Heights, which it views as a violation of international law. The George W. Bush Administration did not attempt to revive Israeli-Syrian peace talks. Prime Ministers Sharon and Olmert and President Bush generally agreed on isolating Damascus until it ended 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 Tehran that enhances the Iranian threat to the Jewish State. Others believe that peace with Syria would be easier to achieve than peace with the Palestinians.

On April 24, 2008, President 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."<sup>39</sup> 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 simultaneously that they had begun indirect talks in Istanbul.

Indirect negotiations stalled after Israel's December 2008-January 2009 Operation Cast Lead in the Gaza Strip prompted harsh criticism from Turkey. U.S. Middle East Envoy George Mitchell has maintained that Turkey has an important role to play in any future Syrian talks, but Israel remains wary of Turkey's ability to be a neutral mediator. Mitchell also noted that Israel must "declare frankly" that it wants peace before negotiations can advance.<sup>40</sup>

## **Lebanon<sup>41</sup>**

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 an Israeli-Lebanese 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. Syria withdrew its occupation force from Lebanon in 2005. Hezbollah, widely viewed as a proxy of Syria, remains in Lebanon. Both the United States and Israel consider Hezbollah a terrorist organization, but it enjoys popular support in Lebanon, particularly among Lebanese Shiites. Hezbollah also participates in Lebanese politics and holds cabinet positions in the Lebanese government.<sup>42</sup>

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<sup>39</sup> "Syrian President Confirms Turkey's Mediation Between Syria, Israel," *Al-Watan* (Doha), April 24, 2008, BBC Monitoring Newsfile.

<sup>40</sup> "U.S. seeks progress on Syria-Israel deal: George Mitchell," *Reuters*, January 20, 2010.

<sup>41</sup> For more information on Lebanon, see CRS Report R40054, *Lebanon: Background and U.S. Relations*, by Casey L. Addis.

<sup>42</sup> For more information on Hezbollah, see CRS Report R41446, *Hezbollah: Background and Issues for Congress*, by Casey L. Addis and Christopher M. Blanchard.

Hezbollah's kidnapping 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 kidnapped 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 and the cease-fire has held ever since. Israeli positions were assumed by the Lebanese army and an enlarged U.N. Interim Forces in Lebanon (UNIFIL).

On May 31, 2008, Hezbollah handed over the remains of five Israeli soldiers killed in the 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 given to Israel. In exchange, Israel released 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 supplied information on four missing Iranian diplomats to the U.N. Secretary General.

The U.N. reports that Hezbollah is rearming via smuggling across the Lebanese-Syrian border. In early April 2010, multiple reports surfaced suggesting that Syria may have transferred Scud missiles to Hezbollah in Lebanon.<sup>43</sup> Syria has denied the charges. Unnamed U.S. officials have acknowledged that they believe that Syria intended to transfer long-range missiles to Hezbollah, "but there are doubts about whether the Scuds were delivered in full and whether they were moved to Lebanon."<sup>44</sup> The State Department issued a statement saying, "The United States condemns in the strongest terms the transfer of any arms, and especially ballistic missile systems such as the Scud, from Syria to Hezbollah. . . . The transfer of these arms can only have a destabilizing effect on the region, and would pose an immediate threat to both the security of Israel and the sovereignty of Lebanon."<sup>45</sup> Subsequent Israeli press reports have cited Israeli military officials as stating that the missiles transferred to date have been M-600s, a ballistic missile with a 185-mile range and half-ton payload.<sup>46</sup>

Likely in response to the 2006 war and in light of ongoing concerns about Hezbollah, Israel reevaluated its policy toward Lebanon. In August 2008, the Israeli security cabinet announced that it would hold the Lebanese government, which includes Hezbollah, "responsible for any event that takes place in its sovereign territory or events for which Lebanese nationals are responsible."<sup>47</sup> Advocates of this policy argue that the new conditions improve Israel's deterrent power as Hezbollah understands the severe ramifications of the new situation should there be any action against Israel in Lebanon or overseas. Critics have expressed concerns that future conflict

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<sup>43</sup> U.S. Open Source Center (OSC) Report GMP20100411184001, "Syria Sends Scud Missiles to Hizballah, Israel Threatens War," *Al Ra'y Online* (Kuwait), April 11, 2010.

<sup>44</sup> "U.S. Says Unclear if Hezbollah Took Scuds to Lebanon," *Reuters*, April 16, 2010.

<sup>45</sup> "U.S. Speaks to Syrian Envoy of Arms Worries," *New York Times*, April 19, 2010.

<sup>46</sup> Jonathan Lis and Amos Harel, "Syria gave advanced M-600 missiles to Hezbollah, defense officials claim," *Haaretz* (Israel), May 5, 2010.

<sup>47</sup> "Israel: Lebanon is Responsible for Hezbollah's Actions," *Haaretz*, August 8, 2008.

between Hezbollah and Israel is inevitable, and that the new policy might result in widespread destruction in Lebanon and could trigger a wider, regional conflict.<sup>48</sup>

## **Turkey<sup>49</sup>**

Turkish-Israeli relations blossomed in the mid-1990s and the two regional democracies then shared antipathy to Syria, developed closer trade ties, and Israel sold weapons and equipment to Turkey. After the Justice and Development Party (AKP) with its Islamist roots came to power in Turkey in 2002, commentators predicted that bilateral relations would cool, but bilateral ties generally continued as before, even after Turkey hosted Hamas politburo chief Khaled Meshal in 2006.

The relationship took a turn for the worse after Israel's December 2008 invasion of the Gaza Strip disrupted indirect Israel-Syria talks that Turkey had been mediating. Turkish Prime Minister Recep Tayyip Erdogan felt personally insulted and politically blindsided by the Israeli invasion, having hosted then Israeli Prime Minister Ehud Olmert in Ankara just days before it began. Additionally, Erdogan used heated rhetoric—such as charges of “crimes against humanity”—to criticize Israel's conduct toward Palestinians during and after the 2008-2009 Gaza conflict, including a particularly public incident when he left the podium during a January 2009 public event with Israeli President Shimon Peres in Davos, Switzerland. Erdogan's words and actions led Israel to doubt Turkey's suitability for mediating future talks between Israel and Syria or other regional actors, and began affecting other aspects of bilateral relations.

Turkish-Israeli relations reached their lowest point as a result of Israel's seizure in international waters of a Turkish ship—the *Mavi Marmara*—that was part of a flotilla intending to break Israel's blockade of the Gaza Strip by delivering aid on May 31, 2010.<sup>50</sup> The incident resulted in the death of nine Turks (including one Turkish-American). Turkey accused Israel of “state terror,” recalled its ambassador from Israel, cancelled joint military exercises as well as trilateral exercises in which U.S. forces participate, and banned Israeli military planes from its airspace. It demanded an apology, compensation for victims, and an international investigation. Israel withdrew its military advisers from Turkey, warned Israeli tourists against traveling there, and refused to apologize after maintaining that it had acted lawfully in self-defense and alleging that the flotilla's planners had terrorist links.

Nevertheless, Israel does not want to fully abandon its ties to Turkey. Discreet talks over a possible rapprochement have taken place periodically without any breakthroughs. Turkey has insisted on its initial demands for an Israeli apology and compensation for the Turkish flotilla victims, but Israel has yet to comply, despite press reports that the Netanyahu government has considered paying compensation. In the midst of the post-flotilla recriminations,<sup>51</sup> Defense Minister Barak expressed concern over the appointment of Hakan Fidan as new head of the

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<sup>48</sup> See, for example, “Drums of War: Israel and the ‘Axis of Resistance,’” International Crisis Group, August 2, 2010.

<sup>49</sup> See also CRS Report RL34642, *Turkey: Selected Foreign Policy Issues and U.S. Views*, by Jim Zanotti.

<sup>50</sup> For an in-depth examination of the incident, see CRS Report R41275, *Israel's Blockade of Gaza, the Mavi Marmara Incident, and Its Aftermath*, by Carol Migdalovitz.

<sup>51</sup> An investigation by the U.N. Human Rights Council favored Turkey's claims that Israel actions were “unlawful,” while internal Turkish and Israeli investigations have reached differing conclusions. A special four-person panel has been organized by U.N. Secretary-General Ban Ki-moon with U.S. support to produce its own findings, as well as suggestions for avoiding similar incidents in the future.



Turkish Intelligence Organization (MIT), describing him as a “friend of Iran,” and expressed anxiety that he would share Israeli intelligence secrets with Iran.<sup>52</sup>

To date, relations have not recovered, and the breach with Israel has affected Ankara’s relations with Washington. Following the flotilla incident, the Senate passed S.Res. 548 by voice vote on June 24, 2010. The resolution condemned the attack by the “extremists aboard the Mavi Marmara,” invoked Israel’s right to self-defense, and encouraged “the Government of Turkey to recognize the importance of continued strong relations with Israel and the necessity of closely scrutinizing organizations with potential ties to terrorist groups.”<sup>53</sup> A January 2011 *New York Times Magazine* article quotes Selim Yenel, a Turkish Foreign Ministry deputy undersecretary responsible for U.S. relations, as saying, “We’re getting a lot of flak from the Hill. We used to get hit by the Greek lobby and the Armenian lobby, but we were protected by the Jewish lobby. Now the Jewish lobby is coming after us as well.”<sup>54</sup>

Whether the early 2011 unrest and political turmoil in Egypt and the broader Arab world will significantly impact the Turkey-Israel relationship is not yet clear. Turkey is less likely to be flexible in its demands if it perceives that its leverage with Israel has increased due to (1) diminished reliability of Israel’s peace treaties with Egypt and Jordan and (2) potential for anti-Israel sentiment to gain political traction in the region. It is debatable whether an active U.S. brokering role will improve or worsen prospects for Turkey-Israel rapprochement and for future U.S. relations with both countries.

## **European Union<sup>55</sup>**

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 maintains that, without a resolution to the conflict, “there will be little chance of dealing with other problems in the Middle East,” and it has ambitions to exert greater influence in the peace process. The EU is a member of the “Quartet,” with the United States, U.N., and Russia, which developed the Road Map to a two-state solution to the Israeli-Palestinian conflict. It 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. On December 8, 2009, the EU foreign ministers declared that the EU “will not recognize any changes to the pre-1967 borders, including with regard to Jerusalem, other than those agreed by the parties. If there is to be a genuine peace, a way must be found to resolve the status of Jerusalem as the future

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<sup>52</sup> “Turkey ‘Uneasy’ about Barak’s Comments on Intelligence Chief,” *Anatolia*, August 3, 2010.

<sup>53</sup> In the House, Representative Dina Titus sponsored H.Res. 1599, which was referred to the House Foreign Affairs Committee in July 2010 and garnered 23 co-sponsors. H.Res. 1599 called upon the Secretary of State to investigate the “role of any foreign governments, including the Republic of Turkey, which may have aided and abetted the organizers of the recent Gaza Flotilla mission to breach Israeli coastal security and assault the naval defense forces of the State of Israel.”

<sup>54</sup> James Traub, “Turkey’s Rules,” *New York Times Magazine*, January 20, 2011.

<sup>55</sup> See also CRS Report RL31956, *European Views and Policies Toward the Middle East*, by Kristin Archick, and CRS Report RL33808, *Germany’s Relations with Israel: Background and Implications for German Middle East Policy*, by Paul Belkin.

capital of two states.”<sup>56</sup> The EU also seeks a comprehensive Israeli-Arab peace to include Syria and Lebanon.

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 90-man Border Assistance Mission (EU-BAM) to monitor the reopened Rafah crossing between the Gaza Strip and Egypt. The BAM suspended operations on June 13, 2007, when Hamas took over Gaza. After the 2006 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 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 would 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 its 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 Commission does not include Hezbollah on its list of terrorist organizations, and in the past Israel has protested meetings between European ambassadors and Hezbollah ministers in the Lebanese cabinet.

Israel participates in the EU European Neighborhood Policy (ENP), and in the Union for the Mediterranean (UPM). It accepted the Arab League as a fellow member in the UPM in exchange for one of five deputy secretary general positions in the group. The Israeli-Palestinian conflict still impedes the UPM.

On December 8, 2008, EU foreign ministers unanimously approved an upgrading relations with Israel that was to be marked by a meeting between Israel’s prime minister and leaders of EU member states in Brussels in April 2009, a thrice-yearly meeting of Israel’s foreign minister with EU counterparts, Israel’s inclusion in EU peacekeeping, and an EU commitment to help Israel integrate better into U.N. agencies. As a result of Israel’s offensive against Hamas in the Gaza Strip shortly thereafter, however, the EU suspended its decision on upgrading. The EU’s ambassador to Israel said that discussion would resume if there is a “favorable atmosphere,” i.e., opening of the crossings into Gaza, economic development in Gaza, and an effort to promote dialogue.<sup>57</sup> While in Italy on May 6, 2009, Foreign Minister Lieberman said that the upgrade in relations must “not be connected to the other problems in the Middle East.” On June 15, 2009, the European foreign ministers did not act to implement the upgrade plan and said that additional progress in relations depended on the peace process with the Palestinians.

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<sup>56</sup> “EU Calls for Jerusalem to be Shared Capital,” *Boston Globe*, December 9, 2009.

<sup>57</sup> Herb Keinon, “EU, Israel ‘Time-Out’ on Upgrading Ties Until ‘Favorable Atmosphere’ after Gaza Op,” *Jerusalem Post*, January 15, 2009.

# 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.

## 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 1991 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.<sup>58</sup> U.S., European Union, Russian, and U.N. representatives built on this vision to develop the Performance-Based Roadmap to a Permanent Two-State Solution to the Israeli Palestinian Conflict (the “Roadmap”).<sup>59</sup>

The Bush Administration supported Israel’s unilateral disengagement from Gaza, mainly as a way to return to the Roadmap. In November 2005, then-Secretary of State Condoleezza Rice personally mediated an accord to secure the reopening of the Rafah crossing between Gaza and Egypt in November 2005. The accord was never implemented. Some Israelis and others criticized her insistence that the January 2006 Palestinian elections proceed with Hamas participating, despite the group’s refusal to disavow violence or recognize Israel. The election produced a Hamas-led Palestinian Authority (PA) cabinet and legislature in uneasy coexistence with PA President Mahmoud Abbas of Fatah. The Administration later agreed with Israel’s preconditions for dealing with Hamas.

In November 2007, after Hamas forcibly seized control of the Gaza Strip, Abbas appointed a new “caretaker” government for the West Bank-based PA. President Bush then convened an international meeting in Annapolis, Maryland to support bilateral negotiations between Israel and the Abbas-led Palestinian Liberation Organization (PLO), but the talks were suspended due to the 2008-2009 conflict in Gaza (“Operation Cast Lead”).

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<sup>58</sup> See <http://www.whitehouse.gov/news/releases/2002/06/20020624-3.html> for text of President’s speech.

<sup>59</sup> See <http://www.state.gov/r/pa/prs/ps/2003/20062.htm> for text of Road Map.

On January 22, 2009, President Obama and Secretary of State Clinton jointly announced the appointment of former Senator George Mitchell as their Special Envoy for Middle East Peace. In his January 27, interview with *Al Arabiyah* television, President Obama stated, “Israel is a strong ally to the United States. They will not stop being a strong ally to the United States, and we will continue to believe that Israel’s security is paramount, but I also believe that there are Israelis who recognize that it is important to achieve peace, they will be willing to make sacrifices if the time is appropriate and if there is serious partnership on the other side.” In Israel on March 3, Secretary Clinton underscored the United States’ “unshakeable, durable, and fundamental support for the State of Israel.... Our relationship is more than just one of shared interests. It is one of shared values.”<sup>60</sup>

In spite of a strong commitment to advancing the peace process, the Administration was unable to relaunch peace talks for over a year. With President Obama’s support, PA President Abbas made a cessation of all Israeli settlement activity in both the West Bank and East Jerusalem a precondition for his participation in renewed talks. The Obama Administration took a firm position on the issue of settlements, calling them “illegitimate” and demanding an end to all settlement activity, including “natural growth.”

Netanyahu adopted two positions that he maintains should move the peace process with the Palestinians forward. To assuage U.S. doubts about his views, on June 14, 2009, Netanyahu accepted for the first time that the peace process would result in the establishment of a Palestinian state.<sup>61</sup> However, he demanded that the Palestinians first publicly recognize Israel as the state of the Jewish people and insisted that the Palestinian state be demilitarized. Netanyahu also declared that Jerusalem must remain undivided as the capital of Israel, and that the Palestinian refugee problem be solved outside of Israel, thereby rejecting a “right of return.”<sup>62</sup> Abbas rejected Netanyahu’s statements on recognizing Israel as a Jewish state, Jerusalem, and other matters.

In November 2009, to help “launch meaningful negotiations,” Israeli Prime Minister Netanyahu proposed a “policy of restraint regarding a suspension of new permits and new construction in Judea and Samaria [as Israel refers to the West Bank] for a period of ten months.” The suspension did not apply to housing units under construction, to schools, synagogues, and public buildings, to infrastructure needed for national security, or to construction in Jerusalem. (See “Settlements” for more information.)

Mitchell began shuttling between the parties for “proximity talks” in May 2010, with hopes of persuading the Palestinians to restart direct negotiations under the partial Israeli settlement moratorium. The May 2010 flotilla incident did not derail the talks as Abbas rejected calls to suspend his participation despite pressure from Hamas, although he did characterize Israel’s actions as “state terrorism.”<sup>63</sup>

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<sup>60</sup> Gwen Ackerman and Viola Giengar, “Clinton says Israel Can’t ‘Stand Idly By’ over Gaza,” <http://www.bloomberg.com>, March 3, 2009.

<sup>61</sup> For text of speech, see <http://www.pmo.gov.il>.

<sup>62</sup> “PM Netanyahu’s Conference Call with Conference of Presidents of Major American Jewish Organizations,” <http://www.pmo.gov.il>, July 1, 2009.

<sup>63</sup> “Abbas to ask Obama for ‘Bold’ Mideast Decisions,” *Al-Arabiyah*, June 1, 2010. For more information on the flotilla incident, see CRS Report R41275, *Israel’s Blockade of Gaza, the Mavi Marmara Incident, and Its Aftermath*, by Carol Migdalovitz.

Direct talks between Abbas and Netanyahu were relaunched briefly under President Obama's auspices on September 2, 2010 in Washington, DC, after Abbas secured political support for his participation from the League of Arab States and the PLO Executive Committee. Only the Washington discussions and a second round of talks in Egypt took place before the partial Israeli settlement moratorium expired at the end of September. President Abbas (with support from Arab States) suspended PLO participation in early October.

The peace process has stagnated since then, as the Obama administration has tried to convince Israel to reimpose the settlement moratorium. In November, the Israeli cabinet approved a bill that requires the consent of a supermajority (80 out of 120) in the Knesset (parliament) or a national referendum prior to any territorial withdrawal.<sup>64</sup> The Palestinian leadership continues to reject direct talks until the settlement issue is resolved. Netanyahu has called for talks without preconditions and argued in favor of negotiations over a comprehensive agreement that includes security arrangements, rather than tackling final status issues individually. Final status issues include the status of Jerusalem, the right of return for Palestinian refugees, borders, security, and water.

Netanyahu and other prominent Israeli cabinet members have reaffirmed their commitment to the Palestinian peace process in the wake of the ongoing protests in Egypt, and some observers are optimistic that uncertainty about Israel's future relationship with Egypt could lead to a renewed commitment to the Palestinian track. On February 4, international Middle East Envoy Tony Blair and Prime Minister Netanyahu announced a series of gestures that Israel will make to the Palestinians including a promise to encourage Arab construction and development in East Jerusalem. Israel reportedly hopes that these overtures will lead the Palestinian leadership to abandon its preconditions for negotiations.<sup>65</sup>

## **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 agreed that it is a subject for negotiations and 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 to prevent U.S. official recognition of Palestinian claims to the city. Those restrictions are repeated in P.L. 111-117, the Consolidated Appropriations Act, 2010, signed into law on December 16, 2009.

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<sup>64</sup> Jonathan Lis, "Cabinet approves bill that would mandate referendum prior to territorial withdrawal," *haaretz.com*, November 22, 2010.

<sup>65</sup> Barak Ravid, "Netanyahu Commits to Promoting Arab Construction in East Jerusalem," *Haaretz.com*, February 4, 2011.

## Settlements

Israel has constructed settlements within the expanded municipal boundaries<sup>66</sup> of Jerusalem and on territory adjacent that it describes as “neighborhoods” or “suburbs.” The international community generally considers Israeli construction on territory beyond the 1949 Line to be illegal settlements.<sup>67</sup> Nonetheless, in 1980, under the first Likud Party government, the Israeli Knesset passed the Basic Law: Jerusalem—Capital of Israel, which declares “Jerusalem, complete and united, is the capital of Israel.”<sup>68</sup> A large majority of Israelis agree that united Jerusalem is their capital and support construction of settlements in East Jerusalem.<sup>69</sup>

Successive U.S. Administrations, of both political parties, have since insisted that the fate of Jerusalem is to be decided by negotiations and have discouraged the parties from taking actions that could prejudice the final outcome of those negotiations. Moreover, the Palestinians envisage East Jerusalem as the capital of their future state.

Upon taking office, the Obama Administration declared achieving peace between Israelis and Palestinians to be a high priority. Soon thereafter, the Administration demanded that Israel totally freeze all settlement activity, including that in East Jerusalem. Palestinian leaders followed suit and made a settlement freeze a precondition for their return to the peace talks.

Since 1967 and despite the 1993 Declaration of Principles, Israel has continued building in what it considers to be united Jerusalem and in its environs. Prime Minister Netanyahu announced a 10-month suspension of settlement construction in November 2009, but he specifically excluded Jerusalem from his edict. While the Obama Administration described Netanyahu’s action as an important “first step,” the move did not comply with the U.S. and Palestinians’ demand for a total freeze and the impasse in efforts to resume peace talks continued.

The March 9, 2010 Israeli Interior Ministry announcement that 1,600 new housing units would be constructed in the settlement of Ramat Shlomo, an ultraorthodox community of approximately 16,000 residents located northeast of the pre-1967 border of Jerusalem, was consistent with Israeli government policy. The Sephardic ultraorthodox Shas party holds the Interior Ministry portfolio in the coalition government and its constituents inhabit the settlement. However, the announcement was contrary to U.S. policy and made during a visit by Vice President Joe Biden to ease strains in bilateral U.S.-Israeli relations and to restart the moribund peace process via U.S. moderated proximity talks between Israel and the Palestinians.<sup>70</sup>

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<sup>66</sup> Israel captured East Jerusalem in the 1967 War, subsequently annexed the area to the Jerusalem municipality, and applied Israeli law there. It also expanded the boundaries of the united city, extending them beyond the Green Line.

<sup>67</sup> The most cited international law pertaining to Israeli settlements is the Fourth Geneva Convention, Part III, Section III, Article 49 *Relative to the Protection of Civilian Persons in Time of War*, August 12, 1949, which states in its last sentence, “The Occupying Power shall not deport or transfer parts of its own civilian population into the territory it occupies.”

<sup>68</sup> See <http://www.mfa.gov.il> for the complete text of the Basic Law.

<sup>69</sup> “Poll: Most Israelis Support East Jerusalem Construction,” *Ynetnews.com*, March 22, 2010.

<sup>70</sup> Edmund Sanders, “Vice President Biden on Goodwill Trip to Israel,” *Los Angeles Times*, March 8, 2010.

The first U.S. reaction to the Israeli announcement was Vice President Biden's statement on March 9,

I condemn the decision by the government of Israel to advance planning for new housing units in East Jerusalem.... We believe that through good faith negotiations, the parties can mutually agree on an outcome that realizes the aspirations of both parties for Jerusalem and safeguards its status for people around the world. Unilateral action taken by either party cannot prejudice the outcome of negotiations on permanent status issues.<sup>71</sup>

Then, on March 12, Secretary of State Hillary Rodham Clinton telephoned Prime Minister Netanyahu to say, according to her spokesman, that "the United States considered the announcement a deeply negative signal about Israel's approach to the bilateral relationship (with the United States) and counter to the spirit of the Vice President's trip."<sup>72</sup> She reportedly demanded that Israel take actions to show its commitment to the peace process, including stopping the Ramat Shlomo project, ceasing other construction in Jerusalem, and accepting Jerusalem as a subject for negotiations.<sup>73</sup> The Secretary also told CNN that, "The announcement of the settlements on the very day that the Vice President was there was insulting."<sup>74</sup>

Prime Minister Netanyahu first sent the Vice President a note of apology for the "unfortunate timing" of the announcement.<sup>75</sup> Then, on March 14, Netanyahu told his cabinet, "there was a regrettable incident, that was done in all innocence and was hurtful, and which certainly should not have occurred."<sup>76</sup> However, in his March 22 speech to the American-Israeli Public Affairs Committee (AIPAC) Policy Conference, Netanyahu emphasized the Jewish people's ties to the Land of Israel, which is how the Israeli right refers to the territory that includes Israel, the West Bank, and Jerusalem. He declared "Jerusalem is not a settlement, its our capital."<sup>77</sup> U.S.-Israeli tensions were not relieved by discussions at the White House on March 23, 2010, between President Obama and Prime Minister Netanyahu as they continued to disagree on construction in East Jerusalem.

Some analysts believe that Netanyahu's stance on Jerusalem is based solely on political considerations and a desire to prevent his government from falling. He heads a predominantly right-wing coalition whose members overwhelmingly support a united Jerusalem and settlement construction. The right-wing parties hold the political power of life or death of the government and so, according to this analysis, Netanyahu must do their bidding. Yet, this analysis seems to downplay the fact that Netanyahu was born into Likud and its Land of Israel ideology and agrees with the rightists on both Jerusalem and settlements. His position seems to many to be more than a political calculation. Therefore, although the Obama Administration has lowered the decibel level of its criticism, it is unclear how the stalemate over settlement construction in what Israel considers to be its united capital will be overcome.

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<sup>71</sup> Full statement is available at <http://www.whitehouse.gov>.

<sup>72</sup> Joshua Mitnick, "Clinton Call to Netanyahu: Israeli Settlement Move 'Deeply Negative Signal,'" *Christian Science Monitor*, March 12, 2010

<sup>73</sup> Herb Keinon, "PM Tells Knesset all Premiers since '67 Built in Jerusalem," *Jerusalem Post*, March 16, 2010.

<sup>74</sup> Glenn Kessler, "Clinton Upbraids Netanyahu over Housing Plans; Ties Plunge to New Low; U.S. Insists Israel Prove Commitment to Peace," *Washington Post*, March 13, 2010.

<sup>75</sup> Joshua Mitnick and Jay Solomon, "Biden Leaves Israel with Apology, Doubts," *Wall Street Journal (Online)*, March 12, 2010.

<sup>76</sup> Statement available at <http://www.pmo.gov.il>.

<sup>77</sup> Speech available at <http://www.pmo.gov.il>.

## **Bilateral Trade**

Israel and the United States concluded a Free Trade Agreement (FTA) in 1985, and all customs duties between the two trading partners have since been eliminated. The FTA includes provisions that protect both countries' more sensitive agricultural sub-sectors with non-tariff barriers, including import bans, quotas, and fees. Israeli exports to the United States have grown since the FTA became effective. Qualified Industrial Zones (QIZs) in Jordan and Egypt are considered part of the U.S.-Israeli free trade area. In 2009, Israel imported \$9.5 billion from the United States and exported \$18.7 billion in goods to the United States.<sup>78</sup> Through September 2010, Israel imported \$8.2 billion from the United States and exported \$15.8 billion in goods to the United States.

## **U.S. Aid to Israel<sup>79</sup>**

Israel is the largest cumulative recipient of U.S. foreign assistance since World War II. From 1976 to 2004, Israel was the largest annual recipient of U.S. foreign assistance, having since been supplanted by Iraq. Since 1985, the United States has provided nearly \$3 billion in grants annually to Israel.

Almost all U.S. bilateral aid to Israel is in the form of military assistance. In the past, Israel also had received significant economic assistance. Strong congressional support for Israel has resulted in Israel's receiving benefits not available to other countries. For example, Israel can use some U.S. military assistance both for research and development in the United States and for military purchases from Israeli manufacturers. In addition, all U.S. foreign assistance earmarked for Israel is delivered in the first 30 days of the fiscal year. Most other recipients normally receive aid in installments. Congress also appropriates funds for joint U.S.-Israeli missile defense programs.

In August 2007, the Bush Administration announced that it would increase U.S. military assistance to Israel by \$6 billion over the next decade. The agreement calls for incremental annual increases in Foreign Military Financing (FMF) to Israel, reaching \$3 billion a year by FY2011.

For FY2011, the Obama Administration requested \$3 billion in FMF to Israel. According to the State Department's FY2011 budget justification for Foreign Operations, "U.S. assistance will help ensure that Israel maintains its qualitative military edge over potential threats, and prevent a shift in the security balance of the region. U.S. assistance is also aimed at ensuring for Israel the security it requires to make concessions necessary for comprehensive regional peace."

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<sup>78</sup> Statistics compiled by Foreign Trade Division, U.S. Census Bureau, accessed February 2011.

<sup>79</sup> For more details, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.



**Table 4. Recent U.S. Assistance to Israel**  
(millions of dollars)

| Year         | Total             | Military Grant  | Economic Grant  | Immig. Grant   | ASHA          | All other       |
|--------------|-------------------|-----------------|-----------------|----------------|---------------|-----------------|
| 1949-1996    | \$68,030.9        | \$29,014.9      | \$23,122.4      | \$868.9        | \$121.4       | \$14,903.3      |
| 1997         | 3,132.1           | 1,800.0         | 1,200.0         | 80.0           | 2.1           | 50.0            |
| 1998         | 3,080.0           | 1,800.0         | 1,200.0         | 80.0           | —             | —               |
| 1999         | 3,010.0           | 1,860.0         | 1,080.0         | 70.0           | —             | —               |
| 2000         | 4,131.85          | 3,120.0         | 949.1           | 60.0           | 2.75          | —               |
| 2001         | 2,876.05          | 1,975.6         | 838.2           | 60.0           | 2.25          | —               |
| 2002         | 2,850.65          | 2,040.0         | 720.0           | 60.0           | 2.65          | 28.0            |
| 2003         | 3,745.15          | 3,086.4         | 596.1           | 59.6           | 3.05          | —               |
| 2004         | 2,687.25          | 2,147.3         | 477.2           | 49.7           | 3.15          | 9.9             |
| 2005         | 2,612.15          | 2,202.2         | 357.0           | 50.0           | 2.95          | —               |
| 2006         | 2,534.5           | 2,257.0         | 237.0           | 40.0           | —             | 0.5             |
| 2007         | 2,503.15          | 2,340.0         | 120.0           | 40.0           | 2.95          | 0.2             |
| 2008         | 2,423.9           | 2,380.0         | 0               | 40.0           | 3.90          | 0               |
| 2009         | 2,583.9           | 2,550.0         | 0               | 30.0           | 3.90          | 0               |
| 2010         | 2,800.0           | 2,775.0         | 0               | 25.0           | —             | 0               |
| <b>Total</b> | <b>109,001.55</b> | <b>61,348.4</b> | <b>30,897.0</b> | <b>1,613.2</b> | <b>151.05</b> | <b>14,991.9</b> |

**Notes:** This table shows cumulative U.S. aid to Israel for FY1949 through FY1996, and U.S. aid to Israel for each fiscal year since.

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

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

## Loan Guarantees

In a January 2010 PBS interview, Charlie Rose asked President Obama's Special Envoy for Middle East Peace, former Senator George Mitchell, to comment on the possible use of U.S. punitive measures against Israel should the Administration not receive Israeli cooperation on peacemaking/halting settlement construction. Mitchell responded by stating:

Under American law, the United States can withhold support on loan guarantees to Israel. President George W. Bush did so.... That's one mechanism that's been publicly discussed. There are others, and you have to keep open whatever options. But our view is that we think the way to approach this is to try to persuade the parties what is in their self-interest. And we think that we are making some progress in that regard and we're going to continue in that effort, and we think the way to do it is to get them into negotiations.

In response, Israeli Finance Minister Yuval Steinitz remarked that “We don't have to use those guarantees. We are doing very well without them.”<sup>80</sup> Senator Joseph Lieberman added that “Any attempt to pressure Israel, to force Israel to the negotiating table by denying Israel support, will not pass in Congress.... Congress will act against any attempt to do that. I don't think it will come to this point.”

## **Scientific and Business Cooperation**

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

- The BIRD Foundation (Israel-U.S. Binational Research & Development Foundation).<sup>81</sup> BIRD, which was established in 1977, provides matchmaking services between Israeli and American companies in research and development with the goal of expanding cooperation between U.S. and Israeli private high tech industries.
- The BSF Foundation (U.S.-Israel Binational Science Foundation).<sup>82</sup> BSF, which was started in 1972, promotes cooperation in scientific and technological research.
- The BARD Foundation (Binational Agriculture and Research and Development Fund). BARD was created in 1978 and supports U.S.-Israeli cooperation in agricultural research.<sup>83</sup>

Section 917 of P.L. 110-140, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act of 2007, contains the original language of the U.S.-Israel Energy Cooperation Act (H.R. 1838). Although it does not appropriate any funds for joint research and development, it does establish a grant program to support research, development, and commercialization of renewable energy or energy efficiency. The law also authorizes the Secretary of Energy to provide funds for the grant program as needed.

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<sup>80</sup> Israel's economy has been steadily growing in recent years. Israel has not drawn on the loan guarantees since FY2004.

<sup>81</sup> See <http://www.birdf.com/default.asp>. Congress helped establish BIRD's endowment with appropriations of \$30 million and \$15 million in 1977 and 1985 respectively. These grants were matched by the Israeli government for a total endowment of \$90 million.

<sup>82</sup> See <http://www.bsf.org.il/Gateway4/>. Congress helped establish BSF's endowment with appropriations of \$30 million and \$20 million in 1972 and 1984 respectively. These grants were matched by Israel for a total endowment of \$100 million. According to the treaty establishing the Foundation, the Foundation shall use the interest, as well as any funds derived from its activities, for the operations of the Foundation.

<sup>83</sup> See <http://www.bard-isus.com/>. Congress helped establish BARD's endowment with appropriations of \$40 million and \$15 million in 1979 and 1985 respectively. These grants were matched by the State of Israel for a total endowment of \$110 million. In recent years, Congress has provided funds for BARD in annual Agriculture Appropriations legislation at approximately \$500,000 a year.

Congress appropriates funds for the U.S.-Israeli Energy Cooperation Program in the annual Energy and Water Development and Related Agencies Appropriations bill. In FY2009, Congress provided \$2 million for the program in P.L. 111-8, the Omnibus Appropriations Act, 2009.<sup>84</sup> In FY2010, Congress provided an additional \$2 million in P.L. 111-85, the Energy and Water Development and Related Agencies Appropriations Act, 2010.

In November 2009, the U.S. Department of Energy and the Israeli Ministry of National Infrastructures announced that they would each contribute \$3.3 million to the BIRD Foundation to launch four clean energy projects. The projects include two solar power related technologies, a “smart grid” technology and a biodiesel project.

In January 2010, the Israeli government injected an additional \$55 million into the BIRD, BSF, and BARD foundations. According to Israeli Finance Minister Yuval Steinitz, “this is a significant and important step for strengthening economic and technological ties with the United States and for capital inflows to Israeli innovation.... We hope that in the wake of this step, we will find more opportunities for achieving these targets.”

## **Security Cooperation**

### *Strategic Defense Initiative*

On May 6, 1986, Israel and the United States signed an agreement (the contents of which are classified) 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. Since 2001, Israel and the United States have conducted a joint biennial exercise, called Juniper Cobra, to work on integrating their weapons, radars, and other systems. In October 2009, the exercise involved 17 U.S. naval ships, one of which was armed with the Aegis Ballistic Missile Defense System, 1,400 U.S. European Command (EUCOM) servicemen and an equal number of IDF forces. The drill tested the U.S. and Israeli air-defense systems and their interoperability. A U.S. commander admitted that the exercise was intended as a signal to discourage “enemies,” which most observers interpret to include Iran.<sup>85</sup>

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.

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<sup>84</sup> P.L. 111-8 did not specify an amount for the program but adopted the House version of the energy and water appropriations bill that recommended \$2 million to fund the U.S.-Israeli cooperative agreement. The Senate version had recommended \$5 million for FY2009.

<sup>85</sup> Irene R. Prusher, “To Defense Against Iran Missiles, US and Israel Conduct Joint Exercises,” *Christian Science Monitor*, October 29, 2009.

### ***Defense Support Program***

One of the most significant gestures of U.S. support for Israel's missile defense architecture has been the deployment of the AN/TPY-2 X-Band radar system (built by Raytheon Co.) to Israel in late 2008. Not only is the X-Band system far more capable of detecting incoming missiles than Israel's existing radar,<sup>86</sup> but the United States has also linked the X-Band to its global network of satellites in the U.S. Defense Support Program (DSP). The DSP is the principal component of the U.S. Satellite Early Warning System to detect missile launches.<sup>87</sup> According to various media reports, the X-Band system is now operational. It will remain U.S.-owned and operated by, for the first time ever, a constant presence of U.S. troops and defense contractors on Israeli soil. Reportedly, the system has been deployed to a secret location in the southern Negev desert close to the Egyptian border.

### ***Iron Dome and Other Missile Defense Cooperation***

In March 2010, the Obama Administration announced that it would support \$205 million in defense assistance to Israel for the purchase of up to ten Iron Dome batteries.<sup>88</sup> The FY2011 National Defense Authorization Act (P.L. 111-383) enacted in January 2011 authorized the full \$205 million for Israel's procurement of Iron Dome, pending appropriations. According to Israeli officials, two Iron Dome batteries it has produced have already been deployed at a southern Israeli air base. Israeli officials say that tests have given them confidence that the system will be effective against attacks from multiple rockets. Partly due to this confidence, Israeli officials say that the military will consider deploying the batteries to population centers (which they estimate would take only a matter of hours) only after rocket attacks are imminent or have already begun. Media reports in late 2010 and early 2011 have raised questions about Iron Dome's readiness and possible tensions in Israel over whether to prioritize the defense of cities or military installations.<sup>89</sup> In the event Congress appropriates funds to help with further Iron Dome procurement, Israel estimates at least a year before those additional batteries are operational.

Congress and successive Administrations have shown strong support for joint U.S.-Israeli missile defense projects. U.S.-Israeli missile defense cooperation has perennially been authorized and appropriated in defense authorization and appropriations bills. Missile defense cooperation is generally not considered a form of direct aid, but many U.S. and Israeli observers consider it a vital component of the Israel's strategic relationship with the United States. Israel and the United States each financially contribute to several projects and share technology from co-developed weapons systems. Ongoing projects include (1) David's Sling (also known as "Magic Wand"), which is designed to counter medium-range (40 km to 300 km) threats, and (2) the longer-range, high-altitude Arrow III system.<sup>90</sup>

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<sup>86</sup> The X-Band system can detect incoming missiles from 500-600 miles. Currently, Israel's early warning system is only able to detect missiles from 100 miles out.

<sup>87</sup> Israel was first given access to DSP in 2001 but only on a per-request, rather than constant, basis.

<sup>88</sup> Iron Dome is a short-range missile defense system designed to destroy crude mortars and rockets fired by militants from the Gaza Strip and southern Lebanon.

<sup>89</sup> "Iron Dome delayed again amid war fears," *United Press International*, January 6, 2011; "U.S. may cut Israel missile shield funds," *United Press International*, December 27, 2010.

<sup>90</sup> For more information on this subject, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

### ***F-35 Joint Strike Fighter Aircraft***

After years of negotiation, the United States and Israel announced in August 2010 that Israel intends to purchase 20 F-35 Joint Strike Fighters at a cost of \$2.75 billion, which is to be paid for entirely using Foreign Military Financing grants. The first planes are scheduled to be delivered in 2015, though the deal is still pending final approval by the Israeli cabinet. Prior to the agreement, both sides had negotiated over the level of Israeli customization of the F-35.

### **Preserving Israel's Qualitative Military Edge**

Since the late 1970s, successive Administrations have argued that U.S. arms sales are an important mechanism for demonstrating the U.S. security commitment to Saudi Arabia, Israel, and other regional countries and for maintaining military to military partnerships to meet shared security threats. During this period, some Members of Congress have argued that sales of sophisticated weaponry to Arab countries may erode Israel's "qualitative military edge" or "QME" over its neighbors. However, successive Administrations have maintained that Arab countries are too dependent on U.S. training, spare parts, and support to be in a position to use sophisticated U.S.-made arms against the United States, Israel, or any other U.S. ally in a sustained campaign. As noted above, in 2008, Congress enacted legislation that requires that any proposed U.S. arms sale to "any country in the Middle East other than Israel" must include with the required notification to Congress a "determination that the sale or export of such would not adversely affect Israel's qualitative military edge over military threats to Israel."<sup>91</sup> In parallel with this legal requirement, in recent years U.S. and Israeli officials have signaled their shared understanding of the U.S. commitment to maintaining Israel's QME.

- In July 2007, Israel's then-Prime Minister Ehud Olmert stated that his government had received, "a detailed and explicit commitment" from the United States "to ensure [Israel's] qualitative military edge over the Arab states."<sup>92</sup>
- During an October 2007 visit to Washington, DC, Israeli Defense Minister Ehud Barak stated that Israel has "understandings and arrangements with the Administration that make us confident that Israel's military qualitative edge will be kept."<sup>93</sup>
- In July 2010, U.S. Assistant Secretary of State for Political-Military Affairs Andrew Shapiro noted the 2008 change in U.S. law and stated "one of my primary responsibilities is to preserve Israel's Qualitative Military Edge, or QME."<sup>94</sup>

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<sup>91</sup> Section 36 (h) of the Arms Export Control Act which contains the "qualitative military edge" requirement was added by Section 201(d) of the Naval Vessel Transfer Act of 2008 (P.L. 110-429). The Act defines QME as: "the ability to counter and defeat any credible conventional military threat from any individual state or possible coalition of states or from non-state actors, while sustaining minimal damages and casualties, through the use of superior military means, possessed in sufficient quantity, including weapons, command, control, communication, intelligence, surveillance, and reconnaissance capabilities that in their technical characteristics are superior in capability to those of such other individual or possible coalition of states or non-state actors."

<sup>92</sup> Yaakov Katz, "Jerusalem Wary of U.S. Arms Sale to Saudis," *Jerusalem Post*, July 30, 2007.

<sup>93</sup> Nathan Guttman, "Contradictory Signals From Israel and its Supporters on Saudi Arms Deal," *Forward*, October 24, 2007.

<sup>94</sup> U.S. Department of State, Assistant Secretary for Political-Military Affairs Andrew J. Shapiro, "The Obama Administration's Approach to U.S.-Israel Security Cooperation: Preserving Israel's Qualitative Military Edge," (continued...)

- On September 30, the Defense Security Cooperation Agency (DSCA) notified Congress of plans to sell up to 25 F-35 Joint Strike Fighters to Israel, with an option for 50 more, at a potential total cost of \$15.2 billion with delivery beginning in 2014. On October 7, 2010, Israeli Maj. Gen. (res.) Udi Shani signed an agreement with the United States for the Israel Defense Forces to purchase their first squadron of F-35 joint strike fighter aircraft, which are to be delivered beginning in 2015. Shani stated, “this is a historic event and a new era in Israel’s security and strategic strength which will allow Israel to maintain its military qualitative edge in order to cope with the challenges both near and far for many years.” He added, “We have an option to purchase more aircrafts (sic)... (T)he deal is an additional expression of the strategic alliance and of our friendly relations with the United States, and of their support of the Israeli qualitative edge.”<sup>95</sup>
- In response to a November 2010 letter from 198 Members of Congress expressing concern about the proposed sale of new and upgraded F-15 fighter jets to Saudi Arabia, Secretary of State Hillary Clinton and Secretary of Defense Robert Gates reaffirmed that the United States commitment to Israel’s QME is “rock solid.”<sup>96</sup> Their comments built on an October 20 statement by Assistant Secretary of Defense for International Security Affairs Alexander Vershbow who said, “we have consulted with Israel as this sale has taken shape. And there have been high-level discussions as well as working-level discussions, and I think it’s fair to say that based on what we’ve heard at high levels, Israel does not object to this sale.”<sup>97</sup>

## Other Issues

### Israeli Military Sales to Third Parties

Israel has become a major global leader in arms exports<sup>98</sup> and, over the last two decades, the United States and Israel have periodically disagreed over Israeli sales of sensitive U.S. and Israeli technologies to third party countries, most notably China. U.S. objections have largely been communicated by successive Administrations and Pentagon officials. In 2000, Representative Sonny Callahan, then-Chairman of the House Appropriations Subcommittee on Foreign Operations, sought to withhold \$250 million in aid to Israel unless it cancelled a planned sale to China of an Airborne Early Warning System.<sup>99</sup> On June 20, 2000, the House Foreign Operations

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(...continued)

Remarks at the Brookings Saban Center for Middle East Policy, Washington, DC, July 16, 2010.

<sup>95</sup> Israel Defense Forces, “Final Agreement Signed for the Purchase of F-35 Fighters,” States News Service, October 8, 2010.

<sup>96</sup> Letter from Secretary of State Clinton and Secretary of Defense Gates to Hon. Howard Berman, November 16, 2010.

<sup>97</sup> Andrew J. Shapiro, Assistant Secretary of State for Political-Military Affairs and Alexander Vershbow, Assistant Secretary of Defense for International Security Affairs, Briefing on Pending Major Arms Sale, Washington, DC, October 20, 2010.

<sup>98</sup> Israel’s customers include Germany, Spain, France, Canada, Australia, Turkey, Singapore, Brazil, India, Italy, the Netherlands, Poland and Romania.

<sup>99</sup> Eric Pianin, “Israel-China Radar Deal Opposed,” *Washington Post*, April 7, 2000.

Subcommittee voted nine to six to defeat Callahan's proposal.<sup>100</sup> In 2005, the United States suspended Israel from participating in the development of the Joint Strike Fighter (JSF) and imposed other restrictions in defense ties because of Israeli plans to upgrade Chinese Harpy Killer drone aircraft. Israel ultimately canceled the sale.

In order to create a more transparent arms transfer process, former U.S. Defense Secretary Donald Rumsfeld and former Israeli Defense Minister Shaul Mofaz signed a 2005 bilateral agreement mandating Israeli consultation with the U.S. government on sensitive arms transfers to third parties. The Israeli government has also established its own arms export controls agency to supervise military sales. U.S. arms sales to Israel, like with all other recipients, are subject to stringent End-Use Monitoring (EUM) as mandated by the Arms Export Control Act (see Section 40A of P.L. 90-629 as amended).<sup>101</sup> Reports of canceled sales/negotiations include the following:

- In 2006, Israel reportedly froze a \$100-million contract with Venezuela to upgrade its U.S.-manufactured F-16 fighter jets due to U.S. pressure. According to one former U.S. official, "We don't officially acknowledge our supervisory role or our de facto veto right over their exports.... It's a matter of courtesy to our Israeli friends, who are very serious about their sovereignty and in guarding their reputation on the world market."<sup>102</sup>
- In 2009, an Israeli defense company partnering with Swedish manufacturer Saab reportedly backed out of a tender competition to sell Swedish-designed fighter planes to India after the Pentagon expressed concern that American technology used by Israel would be integrated into the fighter.<sup>103</sup>
- In 2010, Israel suspended talks with Russia over the possible purchase of 12 reconnaissance Unmanned Aerial Vehicles (UAVs) in a contract worth potentially \$50 million. Israel Aerospace Industries and Russia also were discussing the possible construction of a UAV manufacturing plant in Russia in a deal worth up to \$200 million. The suspension could have been in response to Russian talks with Iran over transferring sophisticated air defense systems or to U.S. concerns over the transfer of advanced Israeli UAVs to Moscow. According to one report, the United States requested clarification about the deal.<sup>104</sup> On September 6, 2010, Russia and Israel signed a military cooperation agreement, though it is unclear whether it will lead to new Israeli sales of UAVs.

## **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.

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<sup>100</sup> According to the House Committee, "the Committee is very disturbed by reports that Israel is preparing to provide China with an airborne radar system that could threaten both the forces of democratic Taiwan and the United States in the region surrounding the Taiwan Strait. The Committee intends to revisit this issue as the appropriations process moves forward." H.Rept. 106-720, accompanying H.R. 4811 (P.L. 106-429), the FY2001 Foreign Operations Appropriations Act.

<sup>101</sup> 22 U.S.C. § 2785.

<sup>102</sup> "U.S. OKs Israel-China Spy Sat Deal," *DefenseNews.com*, October 12, 2007.

<sup>103</sup> "Israel Drops Indian Jets Venture under US Pressure: Report," *Agence France Presse*, July 6, 2009.

<sup>104</sup> "Military Sources: Jerusalem Blocking Multi-Million Russia Drone Deal," *Ha'aretz*, June 13, 2010.

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.<sup>105</sup> U.S. intelligence agencies oppose clemency. 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 Yishay gave President Bush letters from Pollard's current wife and from Shas spiritual leader Rabbi Ovadia Yosef pleading for Pollard's release, the but White House spokesman said that there were no plans to change Pollard's status.<sup>106</sup>

On January 4, 2011, Israeli Prime Minister Netanyahu made a public appeal to President Obama to release Pollard saying that "Since Jonathan Pollard has now spent 25 years in prison, I believe that a new request for clemency is highly appropriate... I know that the United States is a country based on fairness, justice and mercy. For all these reasons, I respectfully ask that you favorably consider this request for clemency. The people of Israel will be eternally grateful." In the letter Netanyahu also apologized for Israel's actions and said that "Israel will continue to abide by its commitment that such wrongful actions will never be repeated."<sup>107</sup>

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. On January 20, 2006, Franklin was sentenced to 12 years, 7 months in prison.<sup>108</sup>

Rosen and Weissman were the first nongovernment employees ever indicted under the 1917 Espionage Act for receiving classified information orally; they argued 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 First Amendment must at times yield to the need for national security." However, he required the government to establish that national security was 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

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<sup>105</sup> See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, by Richard A. Best Jr. and Clyde R. Mark.

<sup>106</sup> Jonathan Finer, "Bush Trip Revives Israeli Push for Pardon of Spy," *Washington Post*, January 15, 2008.

<sup>107</sup> "Netanyahu Sends Obama Letter Urging Pollard's Release," *Jerusalem Post*, January 4, 2011.

<sup>108</sup> The United States has denied an entry visa for Netanyahu's purported choice for national security advisor Uzi Arad, reportedly because of meetings he had with Franklin. Eli Lake, "U.S. Barred Netanyahu Aide 2 Years Ago; Former Israel Spy Linked to Pentagon Leak," *Washington Times*, March 17, 2009.



and other 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.”

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. In other words, the prosecution would have to prove that Rosen and Weissman intended to harm the United States or aid another country by disclosing the information. On February 24, 2009, the appeals court ruled that the defense should be allowed to use classified material and allowed the introduction of an Israeli government document showing that U.S. officials had routinely shared with Israeli counterparts information almost identical to that which the defendants had received. On May 1, the government moved to dismiss the charges against Rosen and Weissman because of the likelihood that classified information would be revealed at trial and damage to the national security might result and because of doubts the government would prevail.

In July 2009, Lawrence Franklin claimed to have worked as a double-agent gathering information on AIPAC for the FBI after the FBI told him that he was suspected of being a mole for Israeli defense and intelligence agencies. Franklin claimed that he had never sought to spy for Israel and that his meetings with the AIPAC people were sanctioned by his Pentagon superiors.<sup>109</sup>

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, NJ, 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 initially pled not guilty and was released on a personal recognizance bond. He is said to have worked at the center from 1963 to 1990 and to have reported to the same Israeli who had handled Pollard. 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.”<sup>110</sup> On May 29, 2009, Kadish pled guilty to one count of conspiracy to act as an unregistered agent of Israel and was fined \$50,000.

On October 15, 2009, the U.S. Justice Department charged Stewart Nozette, a former U.S. government scientist, with attempted espionage. In a sting operation, Nozette allegedly attempted to sell classified information about U.S. satellites, early-warning systems, and other subjects for \$2 million to an undercover FBI agent posing as a Mossad (Institute for Intelligence and Special Operations—Israel’s foreign intelligence and spy agency) contact. Nozette reportedly told the agent that he had previously similarly transmitted classified information. Nozette had held high level security clearances during service as a defense technologist on U.S. nuclear missile programs. Nozette also had consulted for Israel Aircraft Industries from 1998 to 2008. The Department did not allege that the government of Israel or anyone acting on its behalf committed

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<sup>109</sup> Barbara Ferguson, “Pentagon Analyst Says that he Spied on Israel,” McClatchy-Tribune Business News, July 30, 2009.

<sup>110</sup> “Yossi Melman, Shahar Ilan, and Barak Ravid,” Ezra: New Spy Case Won’t Harm U.S.-Israeli Ties,” *Haaretz*, April 23, 2008.

any offense under U.S. laws. On October 26, Nozette pled guilty to a seemingly unrelated two-count charge of conspiracy to defraud the United States and tax evasion.

## **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. 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. 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.<sup>111</sup>

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 objected 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 the Israeli Defense Forces' use of cluster bombs because the manner of use did not conform to international law. On May 30, 2008, 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."<sup>112</sup> P.L. 111-117, the Consolidated Appropriations Act, FY2010, signed into law on December 16, 2009, again reiterates the restrictions on cluster munitions that were in P.L. 110-161.

## **Nuclear Non-Proliferation**

A consensus among media and expert reports is that Israel possesses an arsenal of 100 to 200 nuclear weapons, although some suggest a higher figure.<sup>113</sup> Most reports appear to rely on suspicions voiced in a large volume of declassified U.S. government material in combination with the 1986 revelations of Mordechai Vanunu, a former technician at Israel's nuclear reactor complex, who provided data on and photographs of the nuclear reactor center at Dimona to the *Sunday Times* (London). He claimed that Israel had been building nuclear weapons for 20 years

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<sup>111</sup> David S. Cloud and Greg Myre, "Israel May Have Violated Arms Pact, U.S. Officials Say," *New York Times*, January 28, 2007.

<sup>112</sup> Herb Keinon, "Israel Rejects Cluster Bomb Ban," *Jerusalem Post*, June 1, 2008.

<sup>113</sup> Nuclear Threat Initiative, "Israel Nuclear Facilities," [http://www.nti.org/e\\_research/profiles/Israel/nuclear/3583.html](http://www.nti.org/e_research/profiles/Israel/nuclear/3583.html), and Douglas Frantz, "Israel Gains Full Nuclear Arsenal," *Los Angeles Times*, October 12, 2003, among others. In a report on All Things Considered on March 22, 2001, National Public Radio reporter Eric Weiner used a range of 200 to 400 nuclear weapons, citing the CIA as his source.

and possessed a stockpile of between 100 and 200 warheads.<sup>114</sup> In 1988, Israel convicted Vanunu of espionage and treason for selling secrets to the *Times*, but did not admit that his disclosures were truthful. This follows the Israeli doctrine of nuclear or strategic ambiguity according to which it neither admits nor denies that it possesses nuclear weapons. Israel believes that this doctrine as well as its nuclear weapons add to its deterrence. The United States has agreed with this Israeli line since September 1969, when Israeli Prime Minister Golda Meir and U.S. President Richard Nixon reportedly reached an accord, whereby both sides agreed never to acknowledge Israel's nuclear arsenal in public.<sup>115</sup>

Israel's ambiguous nuclear status is viewed by some members of the international community as an obstacle to advancing non-proliferation objectives. The 1995 Non-Proliferation Treaty<sup>116</sup> Review Conference adopted a resolution that called for "all States in the Middle East to take practical steps" toward establishing "an effectively verifiable Middle East zone free of weapons of mass destruction, nuclear, chemical and biological, and their delivery systems, and to refrain from taking any measures that preclude the achievement of this objective." It also called for all NPT states parties, including the nuclear-weapon states, "to extend their cooperation and to exert their utmost efforts with a view to ensuring the early establishment by regional parties of a Middle East zone free of nuclear and all other weapons of mass destruction and their delivery systems."

The Obama Administration has stated its support for the nuclear-weapon-free zone. Ambassador Susan Burk told a Washington audience March 31, 2010, that the United States supports the 1995 resolution and is "working very hard with partners in the region and elsewhere to try to see if we can come up with some concrete measures that would begin to implement this resolution or at least move it forward in some direction."<sup>117</sup>

Israel has expressed support for a WMD-free zone, but has emphasized that regional powers should resolve other regional security issues before negotiating such a zone. Sha'ul Horev, Director General of Israel's Atomic Energy Commission, explained the government's position September 2009:

It is our vision and policy, to establish the Middle East as a mutually verifiable zone free of weapons of mass destruction and their delivery systems. We have always emphasized, that such a process, through direct negotiations, should begin with confidence building measures. They should be followed by mutual recognition, reconciliation, and peaceful relations. Consequently conventional and non-conventional arms control measures will emerge ... In our view, progress towards realizing this vision cannot be made without a fundamental

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<sup>114</sup> Books relying on Vanunu's information include Yair Evron, *Israel's Nuclear Dilemma*, Ithaca: Cornell University Press, 1994, and Seymour Hersh, *Samson Option*, New York, Vintage Books, 1993. Other sources on the Israeli nuclear weapons include Avner Cohen, *Israel and the Bomb* (New York: Columbia University Press, 1998), and "Completing the Deterrence Triangle," Carnegie Endowment for International Peace, Non-Proliferation Project, v. 3, no. 18, June 29, 2000.

<sup>115</sup> Eli Lake, "Secret U.S.-Israel Nuclear Accord in Jeopardy," *Washington Times*, May 6, 2009.

<sup>116</sup> For more information, see CRS Report R41216, *2010 Non-Proliferation Treaty (NPT) Review Conference: Key Issues and Implications*, coordinated by Paul K. Kerr and Mary Beth Nikitin. Israel, India, and Pakistan are widely believed to possess nuclear weapons but have not signed the NPT.

<sup>117</sup> Available at [http://www.carnegieendowment.org/files/0331\\_transcript\\_npt1.pdf](http://www.carnegieendowment.org/files/0331_transcript_npt1.pdf).

change in regional circumstances, including a significant transformation in the attitude of states in the region towards Israel.<sup>118</sup>

Other countries argue that establishing a Middle East WMD-free zone is necessary to improve the prospects for settling other regional disputes.<sup>119</sup>

## **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 its “Priority Watch List” because it had an “inadequate data protection regime” and intended to pass legislation to reduce patent term extensions. In subsequent years, the USTR retained Israel on the Priority Watch List. In April 2009, the USTR did it again, noting some progress, but also concerns about Israel’s inadequate protection against unfair commercial use of undisclosed test and other data generated to obtain marketing approval for pharmaceutical products, and measures that affect the length of patent term extensions granted to compensate for delays in obtaining regulatory approval of a pharmaceutical product. The USTR says that these policies result in an “unfair disadvantage to innovative pharmaceutical companies who receive comparatively weak protection” under current Israeli laws.<sup>120</sup>

## **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/>

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<sup>118</sup> “Statement by Dr. Sha’ul Horev, Director General, Israel Atomic Energy Commission, to the 53<sup>rd</sup> General Conference of the International Atomic Energy Agency, September 2009,” Israel Atomic Energy Commission, September 15, 2009.

<sup>119</sup> See, for example, Mr. Wael Al-Assad, Statement of the League of Arab States before the Third Preparatory Committee for the 2010 NPT Review Conference, May 6, 2009; and Statement by H.E. Ambassador Maged Abdel Fatah Abdel Aziz before the Third Session of the Preparatory Committee for the 2010 NPT Review Conference, May 4, 2009.

<sup>120</sup> Office of the U.S. Trade Representative, *2009 Special 301 Report*, available at <http://www.ustr.gov>.

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

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

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

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

## **Author Contact Information**

Casey L. Addis  
Analyst in Middle Eastern Affairs  
[caddis@crs.loc.gov](mailto:caddis@crs.loc.gov), 7-0846

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