



Israel: Background and Relations with the United States

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Summary

On May 14, 1948, the State of Israel declared its independence and was immediately engaged in a war with all of its neighbors. Armed conflict has marked every decade of Israel's existence. Despite its unstable regional environment, Israel has developed a vibrant parliamentary democracy, albeit with relatively fragile governments. Early national elections were held on February 10, 2009. 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 put together a coalition comprising his own Likud, *Yisrael Beiteinu* (Israel Our Home), Shas, Labor, *Habayet Hayehudi* (Jewish Home), and the United Torah Judaism (UTJ) parties which controls 74 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 anti-Israel terrorists. 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. Israel unilaterally withdrew from southern Lebanon in 2000. Hezbollah, which then took over the south, 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. 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 November 2007 Annapolis Conference officially welcomed the renewed negotiations, but talks progressed slowly and domestic political turmoil in both Israel and the PA impeded a conclusion. The Obama Administration's Special Envoy for Middle East Peace, former Senator George Mitchell, is trying to restart the peace process.

Since 1948, the United States and Israel have developed a close friendship based on common democratic values, religious affinities, and security interests. U.S.-Israeli bilateral relations are multidimensional. The United States is the principal proponent of the Arab-Israeli peace process, but U.S. and Israeli views differ on 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 its 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 a prominent recipient 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, and CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

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Most Recent Developments

Domestic Politics

Labor Party Chairman and Defense Minister Ehud Barak has been challenged by dissident Labor Members of the Knesset (parliament)—MKs Amir Peretz, Ophir Pines-Paz, Yuli Tamir, and Eitan Kabel—and has sought to prevent former faction head Daniel Ben Simon from joining their ranks. On January 7, 2010, Pines-Paz announced his resignation from the Knesset, accusing his party of having lost its way and charging, “(Prime Minister Benjamin) Netanyahu’s government .. is focused on accomplishing only one thing—stability. The rest is up for sale.... (the) government is giving up on future generations to maintain the current status quo.” The resignation will make it difficult for the remaining rebels to form a large enough group to leave Labor and set up parliamentary faction. Pines-Paz, Peretz, Kabel, Shelly Yachimovich, and Ben-Simon, had been banned from speaking in parliament during Labor’s allotted time for voting against the government of which Labor is a partner.

Lack of progress in the peace process with the Palestinians was thought to have the potential to provoke more opposition to Barak, but the partial settlement freeze that Netanyahu announced on November 25, 2009 is believed to have achieved some intra-party quiet for a while. Some believe that the Prime Minister, who works closely with Barak, may have made the announcement in part to help Barak shore up his position in his party.

On December 24, 2009, Prime Minister Netanyahu asked Kadima Party leader Tzipi Livni to join his coalition government because, he said, threats to national security require unity. Netanyahu reportedly offered Kadima, the largest party in the Knesset, only minimal and unspecified cabinet posts without ministries and refused to reopen coalition agreements with his other partners for renegotiation.¹ On December 28, the Kadima parliamentary delegation unanimously rejected the offer, which Livni described as “cynical.” The deputies said that they were in favor of joining a national unity government, just not on Netanyahu’s terms. Netanyahu is expected to continue his efforts to splinter Kadima by convincing seven of its more hawkish MKs to form a new faction in the Knesset and subsequently join his Likud Party, of which they had been a part before defecting to Kadima.

Meanwhile, former Chief of Staff Shaul Mofaz, who lost the September 2008 primary for the Kadima chairmanship to Livni, has launched an all-out attack on her leadership and is using the prospect of Kadima’s fracture to push for an early party primary to be held in spring 2010 instead of a few months before the next national election as scheduled. He maintains that she should have joined a national unity government in March 2009, when Netanyahu first offered one.

¹ “Israeli PM Offers Livni Two Portfolios; No Coalition Agreement Changes,” Israel TV 1, December 27, 2009, BBC Monitoring Middle East, December 28, 2009.

Iran²

On October 31, 2009, Prime Minister Netanyahu endorsed the U.S. proposal to have Iran move enriched uranium outside of Iran as “a positive first step” in the effort “to unite the international community to address the challenge of Iran’s attempts to become a nuclear military power.” Defense Minister Barak opined that the agreement would set Iran back by about a year, but “there is a drawback” in that it “recognized that Iran enriches uranium, on a low level, on its soil for peaceful purposes. This is problematic for us.” He insisted, “what is required is a halt to enrichment in Iran, not just an export of the enriched material to build fuel rods.” His views reflect those of other Israelis who regarded the proposed agreement as a retreat from the demand that Iran stop all uranium enrichment.³

In a November 15 speech to the Saban Forum in Jerusalem, Netanyahu laid out his views of Iran’s nuclear potential. He said

Iran’s pursuit of nuclear weapons threatens our security, peace in the Middle East, and global stability. With nuclear weapons, its powers of destruction, already considerable, would grow immensely. The moderates in the Middle East would be weakened and extremists strengthened. Other countries in the region would join the race for nuclear weapons. An Iranian regime that pledges to wipe Israel off the map would work day and night to undermine any attempt to advance peace between Israel and its neighbors – whether it is peace with the Palestinians, with Syria, and with anyone else.

In contrast, if Iran’s nuclear ambitions are thwarted, peace would be given a dramatic boost. Hezbollah and Hamas would be considerably weakened and moderate forces within the region would quickly become ascendant. That is why the fate of Iran’s nuclear program is a true turning point in history. It would significantly influence our ability to achieve a stable and secure peace in the Middle East.⁴

At year’s end, Netanyahu’s spokesman said that the Prime Minister is “focused on working with the international community to upgrade the pressure on Iran in a way that makes the Iranian regime know that its nuclear program is unacceptable, that they are going to pay a price that will make them rethink.” He added that Israel is “on the same page” as President Obama in this regard.⁵

On January 6, 2010, Barak said that there is still room for diplomacy, but that Israel expects a deadline to be stipulated for exhausting the diplomatic effort. He expressed hope that the United States would initiate sanctions to cause Iran to stop its nuclear program.⁶

² For more information on Iran’s nuclear program, see CRS Report RL34544, *Iran’s Nuclear Program: Status*, by Paul K. Kerr, and CRS Report R40094, *Iran’s Nuclear Program: Tehran’s Compliance with International Obligations*, by Paul K. Kerr.

³ Ethan Bronner, “Netanyahu Supports Plan to Transfer Iran’s Uranium,” *New York Times*, October 31, 2009, Herb Keinon, et.al., “Barak: Vienna Proposal Will Only Delay Iranian Nuclear Program by a Year,” *Jerusalem Post*, October 23, 2009.

⁴ Full text accessible at Israeli Ministry of Foreign Affairs website, <http://www.mfa.gov.il>.

⁵ Howard Schneider, “Israel Backs U.S. on Iran Sanctions,” *Washington Post*, January 1, 2010.

⁶ “Baraq: ‘Still Room for Diplomacy’ on Iran Nukes,” Voice of Israel Network B, January 6, 2010, Open Source Center Document GMP20100106740006.

U.S. Aid

On December 16, 2009, the President signed the Consolidated Appropriations Act, 2010, into law as P.L. 111-117. It includes State Department foreign operations appropriations. Israel is to receive \$2.22 billion in Foreign Military Financing (FMF) grants, of which \$583,860,000 may be spent for defense procurement in Israel, and \$25 million for refugee resettlement. The appropriation fulfills the U.S. commitment of \$2.775 billion in FMF for 2010 under the 2007 Memorandum of Understanding with Israel when combined with the \$555 million in FMF in P.L. 111-32, the Supplemental Appropriations Act, 2009, that became law on June 24, 2009.

On December 19, 2009, the President signed the Department of Defense Appropriations Act for FY2010 into law as P.L. 111-118. It includes \$202,434,000 for Israeli Cooperative Programs, of which \$80,092,000 is for the Short Range Ballistic Missile Defense Program (SRBMD), \$50,036,000 for an upper-tier component to the Israeli Missile Defense Architecture, and \$72,306,000 for the Arrow Missile Defense Program (which includes \$25 million for producing Arrow missile components in the United States and Israel).

Espionage-related Cases

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 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.

Historical Overview of Israel⁷

The quest for a modern Jewish homeland was launched with the publication of Theodore Herzl’s *The Jewish State* in 1896. The following year, Herzl described his vision at the first Zionist Congress, which encouraged Jewish settlement in Palestine, a land that had been the Biblical home of the Jews and was later part of the Ottoman Empire. In 1917, the British government issued the Balfour Declaration, supporting the “establishment in Palestine (which had become a British mandate after World War I) of a national home for the Jewish people.” Britain also made conflicting promises to the Arabs concerning the fate of Palestine, which had an overwhelmingly Arab populace. Nonetheless, Jews immigrated to Palestine in ever greater numbers and, following World War II, the plight of Jewish survivors of the Nazi holocaust gave the demand for a Jewish home added poignancy and urgency.

⁷ For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York, Knopf, 1996.

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

Government and Politics

Overview

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

Israel does not have a constitution. Instead, 11 Basic Laws lay down the rules of government and enumerate fundamental rights. 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.

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

Developments Leading to 2006 Election

Israel's domestic politics have been tumultuous in recent years. Former Prime Minister Ariel Sharon's plan to disengage from the Gaza Strip and four small West Bank settlements split his Likud Party. Then, in November 2005, Histadrut labor federation head Amir Peretz won a Labor Party leadership primary and pulled Labor out of the coalition government, depriving Sharon of his parliamentary majority.

On November 21, Sharon said that he was no longer willing to deal with Likud rebels, resigned from the party, and founded a new "centrist" party, Kadima (Forward). He asked the President to dissolve parliament and schedule early elections. Some 18 Likud Members of the Knesset (MKs), including several ministers, the chairman of the Likud Central Committee, several Labor MKs, players in other political parties, and prominent personalities joined Kadima. Former Labor leader Shimon Peres supported Sharon. Kadima's platform or Action Plan stated that, in order to secure a Jewish majority in a democratic Jewish State, part of the Land of Israel (defined by some Israelis as the area between the Jordan River and the Mediterranean Sea) would have to be ceded. It affirmed a commitment to the Road Map—the 2003 international framework for achieving a two-state solution to the Israeli-Palestinian conflict. Israel would keep settlement blocs, the security barrier, and a united Jerusalem, while demarcating permanent borders.

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

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

The Hamas victory in the January 25, 2006, Palestinian parliamentary elections rapidly became an Israeli election issue, even though all parties agreed that Israel should not negotiate with Hamas. On March 8, Olmert revealed plans for further unilateral withdrawals from the West Bank by merging of settlements east of the security barrier with large settlement blocs west of the barrier. Netanyahu charged that the unreciprocated, unilateral withdrawal from Gaza had rewarded terrorists and contributed to the Hamas win. He criticized Olmert's plan as another unilateral concession that would endanger Israel.

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

Table I. Parties in the Knesset, 2006

Party	Seats
Kadima	29
Labor	19
Likud	12
Shas	12
Yisrael Beiteinu (Our Home Israel)	11
National Union (NU)/National Religious Party (NRP)	9
Pensioners' (GIL)	7
United Torah Judaism (UTJ) ^a	6
Meretz/Yahad	5
United Arab List/Ta'al	4
Democratic Front for Peace and Equality (Hadash)	3
Balad	3

a. UTJ includes Degel HaTorah and Agudat Yisrael

Government Formation

On May 4, 2006, the Knesset approved a four-party coalition government of the Kadima Party, the Labor Party, the Pensioners' Party, and the Shas Party. The government's guidelines called for shaping permanent borders for a democratic state with a Jewish majority. They also promised to narrow the social gap. Shas joined the coalition without agreeing to evacuate settlements as specified in the guidelines and said it would decide on the issue when it is on the government agenda.

War and Repercussions

Israel engaged in a two-front war against U.S.-designated terrorist groups in response to the June 25, 2006, kidnapping of an Israeli soldier by Hamas and others near Gaza and the July 12 abduction of two Israeli soldiers from northern Israel by Hezbollah.⁸ The Israeli public, press, and parliament supported the war in Lebanon as a legitimate response to an attack on sovereign Israeli territory and a long overdue reaction to Hezbollah rocket attacks on northern Israel, but they questioned its prosecution. The fallout from the war included the resignation of Chief of Staff Lt. Gen. Dan Halutz on January 17, 2007. Retired Maj. Gen. Gabi Askenazi, Director General of the Defense Ministry and a former infantry commander, was named to succeed Halutz and promoted to lieutenant general.

Amid post-war recriminations, Prime Minister Olmert eventually named retired Judge Eliyahu Winograd to head the "Committee for the Examination of the Events of the Lebanon Campaign

⁸ For additional coverage of these developments, see CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*, coordinated by Jeremy M. Sharp.

2006” to look into the preparation and conduct of the war. On April 30, 2007, the Winograd Commission presented interim findings, assigning personal blame for “failings” to Prime Minister Olmert, Defense Minister Peretz, and Chief of Staff Halutz.⁹ The final report, released on January 30, 2008, called the war “a great and severe missed opportunity” and “found grave faults and failings in the decision-making process and the preparatory work both in the political and military levels and the interaction between them.”¹⁰

The political effects of the Winograd Commission on Prime Minister Olmert were minimal. He was not challenged as leader of Kadima and defeated no-confidence votes against his government in the Knesset. Peretz, on the other hand, was defeated in the first round of the Labor Party leadership primary on May 28, 2007. In a second round, on June 12, former Prime Minister and former Israel Defense Forces (IDF) Chief of Staff Ehud Barak became party leader. Barak then took over as Defense Minister, saying that he would serve until an election or until someone other than Olmert forms a new government. On February 3, 2008, Barak announced that he would not withdraw Labor from the government because of the Winograd report because it was “an opportunity to correct things that were revealed” and because of the “challenges Israel faces—Gaza, Hezbollah, Syria, Iran, and rehabilitating the army.” Labor Party ministers argued that supporting the peace process was more important than the Winograd Report, but they also may have been influenced by polls which then predicted a Likud victory in the next election.

Effects of Renewed Peace Process

Resumed Israeli-Palestinian negotiations roiled the domestic political waters, with the fate of Jerusalem being the main focus of discord. In September 2007, Vice Premier Haim Ramon, sometimes viewed as a surrogate for Prime Minister Olmert because of their close ties, floated a peace plan for maintaining a democratic Israel with a solid Jewish majority; one provision called for Israel to cede control of Arab neighborhoods in Jerusalem to the Palestinians and for each religion to administer its holy sites. In October, Olmert himself questioned whether Israel needed to retain outlying Arab neighborhoods in East Jerusalem.

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

On January 22, 2008, Yishay reportedly warned Olmert that Shas would not be part of the government from the moment it makes concessions in the peace talks on Jerusalem.¹¹ Olmert only promised to keep Shas fully informed about the negotiations. Shas exacted a high price for

⁹ For text of Interim Report, see <http://www.mfa.gov.il/MFA/Government/Communiques/2007/Winograd+Inquiry+Commission+submits+Interim+Report+30-Apr-2007.htm>.

¹⁰ For key findings of the Winograd Committee, see http://www.mfa.gov.il/MFA/MFAArchive/2000_2009/2008/Winograd%20Committee%20submits%20final%20report%2030-Jan-2008.

¹¹ Gil Hoffman, “Olmert Promises Yishay Full Disclosure on Peace Concessions,” *Jerusalem Post*, January 23, 2008.

remaining in the government and supporting Olmert in the Knesset. Olmert approved construction of many housing units in several settlements near Jerusalem inhabited predominantly by Shas constituents, which contravened the 2003 international Road Map's call on Israel to end all settlement activity.

Scandals and Political Change

A series of scandals created a sense that the government was operating under a cloud. Several involved the president and prime minister. In October 2006, police recommended that President Moshe Katzav be indicted on charges of rape, sexual harassment, and obstruction of justice. Katzav resigned on June 30, 2007. On June 13, 2007, the Knesset elected Kadima candidate, 83-year-old Shimon Peres to be President of Israel.

Police also opened five investigations into Prime Minister Olmert's alleged corruption. On May 28, Labor leader Barak declared that Olmert could not "simultaneously run the government and deal with his own personal affair." Therefore, "for the good of the state," he called on Olmert to cut himself off from the daily running of the government via "suspension, vacation, or resignation or declaring himself incapacitated." He said that Labor would consider working with Olmert's replacement in Kadima. If Kadima did not act, then Labor would provoke early elections.¹² On June 24, after Labor ministers decided to support a bill calling for the dissolution of the Knesset and thereby for early elections but before a vote on the bill, Barak and Olmert cut a deal: Labor would not support the bill and Olmert agreed to hold a Kadima primary for a new party chairman not later than September 25.

On September 17, Foreign Minister Livni won the Kadima Party leadership primary. Soon afterward, Prime Minister Olmert tendered his resignation and President Peres designated Livni to form a new government. However, Shas demanded a large increase in child allowances and assurances that Jerusalem would never be a subject for negotiations with the Palestinians, and it refused to join the coalition unless its demands were met. Livni rejected Shas's conditions and informed Peres that she had been unable to form a government and, on October 27, he called on the Knesset to dissolve itself and call early national elections.

After the brief war that Israel called Operation Cast Lead against Hamas in the Gaza Strip ended on January 18, 2009, security became the main issue in the final weeks of the political campaign for the February 10, 2009 national elections. Netanyahu's final campaign slogan was "Strong on security, strong on the economy." He charged that the government had stopped the operation against Hamas before finishing the job of ousting the terrorist organization and vowed to overthrow Hamas rule in Gaza and end rocket attacks on southern Israel. He also promised not to withdraw from "one inch" of territory because every inch would go to Iran, to allow construction for "natural growth" in existing settlements, that Jerusalem would remain undivided and under Israeli rule, and not to allow the "return" of any Palestinian refugees.¹³ He said that he would concentrate on achieving "economic peace" with the Palestinians, i.e., improving their lives and boosting their economy as a precondition for political peace, but continue parallel political

¹² Statement by Barak, Voice of Israel, May 28, 2008, BBC Monitoring Newsfile.

¹³ Marie Colvin, "Netanyahu Stokes Fears to Take Poll Lead," *Sunday Times* (London), February 8, 2009, Jonny Hadi, Gil Hoffman, Tovah Lazaroff, "Netanyahu Vows to Expand Settlements if Elected Premier," *Jerusalem Post*, October 2, 2008, and Mazal Mu'alem, "Netanyahu: Jerusalem not up for Negotiations," <http://www.haaretz.com>, October 27, 2008.

negotiations as well.¹⁴ For Netanyahu, the goal of negotiations was Israel’s security and a “permanent arrangement” with the Palestinians, not a Palestinian state.¹⁵ He also vowed to retain the Golan Heights, but to talk to Syria about its cooperation with Iran and its hosting of Palestinian terrorist groups. Netanyahu also pledged to address the economic downturn with tax cuts and improved supervision of financial institutions. Even during the campaign, Netanyahu expressed interest in a national unity government.

Livni stood her ground as author of Kadima’s party platform which called for Israel to remain a democratic state with a Jewish majority, a goal she said could be achieved only via a two-state solution resulting from negotiations with the Palestinians. Livni also steadfastly opposed concessions on Jerusalem and on the return of Palestinian refugees. Livni’s price for giving up the Golan is Syria’s break from Iran and an end to its support for Palestinian terrorists.

Meanwhile, Barak seemed to run for solely himself by emphasizing his security credentials as a former chief of staff and defense minister in charge of what he considered the recent successful military operation in Gaza more than Labor’s history as the party of peace and social democracy. Toward the end of the campaign, Barak admitted that he was running only to become defense minister again.¹⁶

Lieberman emerged as the pivotal power player. He exploited Israelis’ feelings of insecurity by harping on a potential threat from Israeli Arabs who comprise about 20% of Israel’s population and demanding with the slogan “no loyalty, no citizenship” that they take a loyalty oath. Some Israeli Arabs had marched with Hamas flags during protests against the war in Gaza. Lieberman proposed swapping territory populated by Israeli Arabs, including Arab neighborhoods of Jerusalem, for West Bank settlements as part of a two-state solution. He also appealed to his core Russian-speaking community by advocating civil marriage and divorce—unattainable in Israel which permits only religious ceremonies—and less restrictive religious conversion practices.

Election Results and Analysis

Table 2. Parties in the Knesset, 2009

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
13	Labor	Leftist; Social-democrat; a Palestinian state should be established alongside a Jewish state	Coalition

¹⁴ Benjamin Netanyahu, “Don’t Give Up on Peace,” *chicagotribune.com*, December 14, 2008.

¹⁵ Merav David, “Their Political-Security Platform,” *Ma’ariv*, January 27, 2009, BBC Monitoring Middle East.

¹⁶ Shelley Paz, “Barak: Vote for Labor if you Want me as Defense Minister,” *Jerusalem Post*, February 10, 2009.

Seats	Party	Orientation and Views	Coalition or Opposition
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
5	United Torah Judaism (UTJ) ^a	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) ^b	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
3	Habayet Hayehudi (Jewish Home)-New National Religious Party (NRP) ^b	Nationalist; Ashkenazi Orthodox; opposes a Palestinian state; settlements should remain under Israeli sovereignty	Coalition
3	New Movement/Meretz	Leftist; Civil libertarian; Secular; peace activists for withdrawal to 1967 borders	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
4	Hadash (Democratic Front for Peace and Equality)	Israeli-Arab; Communist; for withdrawal to 1967 borders; for separation of religion and the state	Opposition
3	Balad	Israeli-Arab; leftist; for an Israeli state that is not Jewish in character alongside a Palestinian state	Opposition

a. Includes Degel HaTorah and Agudat Yisrael

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

Kadima/Livni surprised many with a strong ending and a 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 and lost decisively to the right, which won a total of 65 seats. Analysts generally agreed that Likud, which made marked gains over the 2006 election, nonetheless did not live up to expectations and was weakened by Yisrael Beiteinu’s surge after the Gaza conflict. The security issue benefitted the right, with the public paying little attention to economic troubles and none to corruption, even though allegations of corruption had ended former Prime Minister Olmert’s tenure and produced the election.

Government Formation

On February 20, President Peres asked Bibi Netanyahu to form a government, giving him six weeks or until April 3 to find 61 votes in the Knesset in order to succeed. Netanyahu immediately reached out to Livni and Barak for a national unity government. He reportedly wanted to avoid a narrow right-wing coalition whose components would make demands that might put Israel on a possible collision course with the Obama Administration and others in the international community seeking to jump start a peace process. Livni demanded that Netanyahu commit to a two-state solution to the Israeli-Palestinian conflict, changes to the electoral system, and other reforms, and she stated that Netanyahu would not agree. Livni reportedly was holding out for a

rotation as prime minister.¹⁷ Netanyahu claimed that he had offered Livni a “full partnership,” and he charged that she lacked the will for unity.

Barak initially admitted that “the voters sent Labor to the opposition and that’s where we’ll go,” but as time passed he appeared set on reclaiming the defense ministry despite opposition within his party to the move. Others in Labor were unwilling to sit in a cabinet with Yisrael Beiteinu leader Lieberman because of what they considered his racist views toward Israeli Arabs.¹⁸ They also argued that the voters’ lack of support had relegated Labor to the opposition for the time being. Netanyahu would not accept Barak alone without other Labor MKs to boost the coalition’s numbers.

After deals with Kadima and Labor at first proved elusive, Netanyahu began forming a right-wing government of his own Likud Party, Shas, Yisrael Beiteinu, Jewish Home, and UTJ. He concluded his first coalition agreement with Yisrael Beiteinu, agreeing to name Lieberman as foreign minister and to give the party four other ministries. Next, he gave Shas the Housing Ministry to advance the interests of its core constituents who need to accommodate large families, probably including in West Bank settlements, with purview as well over the powerful Israel Lands Authority and three other cabinet portfolios. It also gained increases in child allowances.

Netanyahu then again reached out to Kadima and Labor. While Livni held fast to her demands, Barak won the approval of a majority of his party’s Central Committee to join the coalition and override dissident Labor MKs. Netanyahu’s generosity to Labor in the form of five ministries and benefits for its constituencies, especially the *Histadrut* (General Federation of Labor, i.e., national labor union), appears to have swayed Central Committee voters. The Labor-Likud accord includes a pledge to pursue “a regional peace agreement with all of Israel’s neighbors and to honor past peace accords,” but does not explicitly mention the Palestinians or a Palestinian state as a goal.¹⁹ Netanyahu later added Jewish Home to the coalition and, after it seemed to be finalized, UTJ also came on board. The coalition controls 74 seats the Knesset.

New Government

On March 31, Prime Minister Netanyahu presented an unwieldy government of 30 ministers and 7 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.

¹⁷ Linda Gradstein, “Netanyahu Fails to Sway Livni,” *Washington Post*, February 28, 2009.

¹⁸ During the election campaign, Lieberman demanded that Israeli Arabs sign a loyalty oath. Justice Minister Friedmann has sought to weaken what he considers the Supreme Court’s “activism” in subordinating the other branches of government to its views of the law. Ze’ev Segal, “The New Justice Minister – an Agenda-Based Appointment,” <http://www.haaretz.com>, February 8, 2007.

¹⁹ Charles Levinson, “Labor Party Joins Netanyahu Coalition,” *Wall Street Journal*, March 25, 2009.

Table 3. Key Cabinet Ministers

Post(s)	Incumbent	Party
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 ^a	Avigdor Lieberman	Yisrael Beiteinu
Deputy Prime Minister, Minister of Defense	Ehud Barak	Labor
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.

On August 2, the Israeli police recommended indicting Foreign Minister Lieberman on charges of bribery, fraud, money laundering, witness harassment, and obstruction of justice. They forwarded their recommendation to the attorney general, who will decide whether to proceed. If indicted, the foreign minister will have to resign. Lieberman charged that the police investigation was politically motivated, but said that he would resign his ministry if indicted and that three to five months later he would resign from the Knesset and as chairman of his party. Lieberman added that he expected to be chairman and foreign minister for years. As the party could still remain in the coalition, the government's stability need not be affected by these developments.

On August 3, the Knesset passed a law reducing the number of Members required to obtain recognition of a party split from one-third of a party's MKs to seven. If fewer vote, they would be subject to sanctions, such as not being allowed to run in the next election, to be a minister or deputy minister during the current legislative session, or to receive party funding. The Prime Minister reportedly hopes that the law will attract a group headed by former Chief of Staff, Minister of Defense, and Minister of Transportation Shaul Mofaz to defect from Kadima.

Economy

Overview

Israel has an advanced industrial, market economy in which the government plays a substantial role. Most people enjoy a middle class standard of living. Per capita income is on par with some European Union member states. Despite limited natural resources, the agricultural and industrial sectors are well developed. The engine of the economy is an advanced high-tech sector, including aviation, communications, computer-aided design and manufactures, medical electronics, and

fiber optics. Israel greatly depends on foreign aid and loans and contributions from the Jewish diaspora.

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 4. Basic Facts

Population	7.234 million (includes an estimated 187,000 settlers in the West , 20,000 in the Golan Heights, and fewer than 177,000 in East Jerusalem) (July 2009 est.)
Jews	76.4%
Arabs	23.6%
Gross Domestic Product growth rate	0.5% (2009 est.)
GDP per capita	\$28,600 (2008 est.)
Unemployment rate	7.7% (2009 est.)
Population below poverty line	21.6% (2007 est.)
Inflation rate	4.6% (2008 est.)
Military Expenditures	6.3% GDP (2009 est.)
Public debt	75.7% GDP (2008 est.)
Exports	\$54.16 billion (2008 est.)
Export commodities	machinery and equipment, software, cut diamonds, agricultural products
Export partners	U.S. 35%, Belgium 7.5%, Hong Kong 6.7% (2008)
Imports	\$62.52 billion (2008 est.)
Import commodities	raw materials, military equipment, investment goods, rough diamonds
Import partners	U.S. 12.3%, Belgium 6.5%, China 6.1%, Switzerland 6.1%, Germany 6% (2008)

Source: CIA, *The World Factbook*, November 27, 2009, Israeli Central Bureau of Statistics, December 31, 2009.

Current Situation

In February 2009, the Bank of Israel (Central Bank) drew a gloomy picture of the economy: a decline in economic activity in nearly all industries; increased employment insecurity, erosion of real wages undermining consumer confidence and slowing the rise in private consumption; a decline in exports due to the worldwide contraction in trade; an overall drop in the value of

financial assets; and a projected large increase in the 2009 budget deficit.²⁰ In March, the Bank predicted a 1.5% contraction in the economy, the worst since the founding of the state. It estimated an unemployment rate of between 8% and 9% by the end of 2009. The Central Bureau of Statistics reported that GDP fell 3.2% in the first quarter of 2009, following a 0.5% drop in the fourth quarter of 2008. In other words, Israel was experiencing a recession. The Bank of Israel slashed interest rates and repeatedly bought dollars to keep the value of the shekel (national currency) down and Israeli exports attractive.

In April, Prime Minister Netanyahu and Finance Minister Steinitz announced a series of additional measures to rescue the economy and fight unemployment. They include a doubling of the government's guarantee for bank loans to enable them to expand credit, aid for the high-tech sector and exporters, and cuts in personal income and corporate taxes to be phased in through 2016. There was no bank bailouts or economic stimulus. Taxes were increased on cigarettes, gasoline, and social security.

On May 13, the cabinet approved, with Shas's four ministers dissenting, a two-year budget for 2009-2010 with a deficit target of 6% of GDP in 2009 and 5.5% in 2010. Public spending will rise 2.95% as opposed to the 1.7% norm. The defense budget absorbs 15.1% of the overall budget and 6.3% of expected GDP, the highest percentages among developed countries. The Knesset approved the budget on June 23. Steinitz has predicted that the deficits for both 2009 and 2010 will be lower than initially projected due to higher than anticipated growth in GDP.²¹ The unemployment rate also is expected to be lower than expected as it started to decline in June.

Bank of Israel Governor Stanley Fischer expected a significant portion of the economy to return to growth by the end of the year. This has proven to be true. The Central Bureau of Statistics recorded a 1.1% growth rate for the second quarter of 2009 and a 3% rate for the third quarter. The economic rebound led the Bank to raise interest rates in August and again in November, mainly in response to inflation exceeding targets.

Foreign Policy

Middle East

Iran

Israeli officials state that Iran will pose an existential threat to Israel if it achieves nuclear weapons capability.²² 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

²⁰ Tal Lev, "Bank of Israel: Slowdown Intensified in Last Quarter," <http://www.haaretz.com>, February 12, 2009.

²¹ Talk at Washington Institute for Near East Policy, September 15, 2009.

²² One 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.

statements. Iran possesses missiles capable of delivering a warhead to Israel.²³ Israeli officials have called on the international community to thwart Iran's nuclear ambitions in order to avert the need for Israel to act as it did against Iraq's reactor at Osirak in 1981.

In 2005, when then Vice President Dick Cheney warned that Israel might act pre-emptively against Iran, Israel's then Defense Minister Shaul Mofaz countered, urging a pre-emptive U.S. strike. Some consider the prospect of an Israeli counterattack to be an effective deterrent against an Iranian attack because Israel is presumed to have nuclear weapons. Others have expressed concern about the ramifications of a military strike against Iran on regional stability and about possible retaliation by Iran, Syria, and Hezbollah.

However, on January 17, 2006, then Acting Prime Minister Olmert said, "Under no circumstances ... will Israel permit anyone who harbors evil intentions against us to possess destructive weapons that can threaten our existence." He added, "Israel acted, and will continue to act, in cooperation and consultation with ... international elements."²⁴ On April 23, he stated, "it would not be correct to focus on us as the spearhead of the global struggle as if it were our local, individual problem and not a problem for the entire international community. The international struggle must be led and managed by—first and foremost—the U.S., Europe, and the U.N. institutions. We are not ignoring our need to take ... steps in order to be prepared for any eventuality."²⁵

Israel welcomed U.N. Security Council Resolution 1747, March 24, 2007, which imposed additional sanctions in Iran due to its failure to halt uranium enrichment and the U.S. State Department's October 25th decision to subject Iran's Revolutionary Guards, some financial entities, and individuals to economic sanctions.

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."²⁶ 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."²⁷

²³ 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 to 1,500 miles, which was test-fired on May 20, 2009.

²⁴ "PM Olmert, President Qatzav Discuss Iran, Peace Process During News Conference," Open Source Center Document FEA20060117017385, January 17, 2006.

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

²⁶ 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.

²⁷ Stephen Erlanger and Isabel Kershner, "Israel Insists That Iran Still Seeks a Bomb," *New York Times*, December 5, 2007.

On December 8, Prime Minister Olmert observed, “Iran is continuing to pursue the two vital components needed for a nuclear weapons program—developing and advancing their rocket arsenal and enriching uranium.” In an interview published on January 26, 2008, Barak told the *Washington Post*, “We suspect they are probably already working on warheads for ground-to-ground missiles ... (and) that probably they have another clandestine enrichment operation beyond the one in Natanz.” On May 11, Olmert contested the NIE’s conclusion that Iran had not restarted his nuclear weapons program, maintaining, “Based on the information we have, the military program continues and has never been stopped. If this program continues, at some point they will be in possession of a nuclear weapon.”²⁸

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

On January 6, 2008, President Bush reasserted, “If Iran did strike Israel... (w)e will defend our ally (Israel), no ands, ifs, or buts.”²⁹ During a visit to Israel on January 9, the President noted that the NIE “sent the signal to some that said perhaps the United States does not view an Iran with a nuclear weapon as a serious problem..., (but) Iran was a threat, Iran is a threat, and Iran will be a threat if the international community does not come together and prevent that nation from the development of the know-how to build a nuclear weapon.”

In May, Olmert told visiting Members of Congress that “the window of opportunity to prevent a nuclear Iran will close in 2010. Iran would then provide a nuclear umbrella to the terrorist organizations and would make the fight against them difficult.”³⁰

On June 20, the *New York Times* reported that the Israeli Air Force had conducted a major exercise about 900 miles west Israel in the Mediterranean, comparable to the distance from Israel to Iran’s uranium enrichment plant at Natanz. Some 100 planes reportedly were involved. The exercise was viewed as a rehearsal for an attack on Iran’s nuclear facilities and a signal to the West of Israel’s readiness to act if diplomacy fails to curtail the Iranian threat.³¹ On July 2, Chairman of the U.S. Joint Chiefs of Staff Admiral Mike Mullen said that “opening a third front (in addition to Iraq and Afghanistan) right now would be extremely stressful” on the U.S. military. He added that the consequences of an attack on Iran “are very difficult to predict.”³²

On July 4, commander of Iran’s Revolutionary Guards Gen. Mohammed Ali Jafari declared that Iran would consider military action against its nuclear facilities as the beginning of a war. On July 7, the Guards’ website carried a statement that Tel Aviv, Israel’s largest city, and the U.S. naval fleet in the Persian Gulf would be among the first targets of a response.³³ On July 9, the Guards

²⁸ Lally Weymouth, “A Conversation with Ehud Olmert,” <http://www.washingtonpost.com>, May 11, 2008.

²⁹ “Bush Says US Would Defend Israel if Iran Attacks,” *Agence France Presse*, January 6, 2008.

³⁰ Itamar Eichner, “PM to Congressmen: Iran would Provide Nuclear Umbrella to Terrorists,” *Yedi’ot Aharonot*, May 20, 2008, Open Source Center Document GMP20080520743002.

³¹ Michael R. Gordon and Eric Schmitt, “U.S. Says Exercise by Israel Seemed Directed at Iran,” *New York Times*, 20, June 2008.

³² Aamer Madhani, “Israeli Airstrike on Iran Would Come at a High Price, Mullen Says,” McClatchy-Tribune News Service, July 2, 2008.

³³ “Iranian Military Warns US, Israel Against Attack,” <http://www.cnn.com>, July 8, 2008.

test-fired nine missiles, including one capable of reaching Israel. A White House spokesman stated that Iran's development of ballistic missiles violated U.N. Security Council resolutions and called on the Iranians to "stop the development of ballistic missiles which could be used as a delivery vehicle for a potential nuclear weapon."

An Israeli Defense Ministry statement reported that Barak had told U.S. Secretary of Defense Robert Gates that "a policy that consists of keeping all options on the table must be maintained" regarding Iran. Barak also said that there was time for "accelerated sanctions" to persuade Iran to abandon its nuclear program.³⁴ On August 13, Barak told Israeli Army Radio that the United States did not "see an action against Iran as the right thing to do." He added, "a small, isolated country like Israel needs in the final analysis to rely on itself, and only itself."³⁵ On November 7, Barak said, "We don't rule out any option. We recommend others don't rule out any option either. We are convinced that Iran continues to try to obtain a nuclear weapon and continues to cheat everybody by holding negotiations on the control of such weapons."

On January 10, 2009, the *New York Times* reported that the Bush Administration had rejected an Israeli request for specialized bunker-busting bombs it wanted for an attack on Iran's main nuclear complex at Natanz and an Israeli request to fly over Iraq to reach the complex. However, the Administration did increase intelligence-sharing with Israel regarding U.S. plans to sabotage Iran's nuclear infrastructure covertly.³⁶

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."³⁷ 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.³⁸ 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."³⁹

On March 8, 2009, Gen. Yadlin told the Israeli cabinet that "Iran has crossed the technological threshold, so that reaching a military nuclear ability is only a matter of matching the strategy to the goal of creating a nuclear bomb." He said, "Iran continues to accumulate hundreds of kilograms of enriched uranium of poor quality, and hopes to take advantage of its dialogue with the West and the government in Washington in order to advance toward creating a nuclear bomb."⁴⁰ Yadlin later told a Knesset Committee that Iran is working slowly so as not to give the

³⁴ Paul Richter, Julian E. Barnes, "Strike on Iran is not Off the Table," *Los Angeles Times*, July 30, 2008.

³⁵ Quoted in Herb Keinson and Hilary Leila Krieger, "US Clearly States it Opposes Military Action Against Iran Now, Barak Says," *Jerusalem Post*, August 14, 2008.

³⁶ David E. Sanger, "U.S. Rejected Aid for Israeli Raid on Iranian Nuclear Site," *New York Times*, January 10, 2009.

³⁷ Speech at Tel Aviv University, quoted by Josh Mitnick, "Israel Warms to Obama's Pledge of Talks with Iran," *Washington Times*, November 26, 2008.

³⁸ Ibid.

³⁹ Alex Fishman, "Existential Threat," *Yedi'ot Aharonot*, February 16, 2009, Open Source Center Document GMP20090216741001.

⁴⁰ Sofer, op. cit..

international community reason to take punitive measures. He stated that it is advancing toward the ability to produce nuclear weapons in stages, but stopping short of actually making one so that it would not be accused of breaking its obligations under the Nuclear Non-Proliferation Treaty. It will maintain the capability to build a bomb quickly once it makes the decision. He suggested that “The right combination of sanctions and incentives could lead to a change in Iran’s policies.”⁴¹

Meanwhile, U.S. officials offered their own assessments. On February 12, 2009, the new U.S. Director of National Intelligence Dennis Blair presented an annual threat assessment to the Senate Select Committee on Intelligence that restated the view that Iran has not restarted the nuclear weapons design and weaponization work it had halted in 2003. It said, “Although we do not know whether Iran currently intends to develop nuclear weapons, we assess Tehran at a minimum is keeping open the option to develop them” and has made significant progress in installing and operating centrifuges at its main enrichment plant in Natanz. The report judged that “Iran probably would be technically capable of producing enough highly enriched uranium for a weapon during the 2010-2015 time frame.” On March 10, Blair told a congressional committee that Iran does not now have highly enriched uranium.

On March 12, Chairman of the Joint Chiefs Adm. Mullen told Charlie Rose on PBS that he and Israeli Chief of Staff Ashkenazi are “by and large” in agreement on Iran’s progress toward obtaining nuclear weapons—namely, that it will not happen before 2010—and that any discrepancies between Israeli and U.S. estimates are insignificant. Mullen also said that he agrees with Blair’s timeline. On Fox News on March 29, Secretary of Defense Gates asserted that Iran may have low-enriched uranium from the centrifuges at Natanz, but it does not have the capability to enrich the material further to weapons grade. He also asserted that economic sanctions would be more effective than diplomatic overtures in bringing Iran to negotiate regarding its nuclear program.

U.S. officials have increasingly commented on the prospect of Iran obtaining nuclear weapons and a possible Israeli reaction. On April 1, the Commander of the U.S. Central Command Gen. David Petraeus told the Senate Armed Services Committee that “The Israeli government may ultimately see itself so threatened by the prospect of an Iranian nuclear weapon that it would take preemptive military action to derail or delay it.” He also said that “a credible U.S. effort on Arab-Israeli issues that provides regional governments and populations a way to achieve a comprehensive settlement of the disputes would undercut the idea of militant ‘resistance,’ which the Iranian regime and extremist organizations have been free to exploit.” Then, on April 7, Vice President Joe Biden told a CNN interview that he thought Netanyahu “would be ill-advised” to strike Iranian nuclear facilities. Secretary Gates subsequently told Marine Corps students that a strike probably would delay Iran’s nuclear program from one to three years, but it would “cement their determination to have a nuclear program, and also build into the whole country an undying hatred of whoever hits them.”⁴² On April 30, he told Senate appropriators that the only way to eliminate Iran’s determination to have nuclear weapons is for Tehran to make that decision itself, by convincing Iran that nuclear arms would spark an arms race that would leave it less secure.

Some Israeli officials have called for establishing a deadline for progress in U.S.-Iranian talks. However, on April 29, the U.S. National Security Council spokesman said, “It’s not appropriate at

⁴¹ *Jerusalem Post* online, March 25, 2009.

⁴² Paul Richter, “Gates Warns Israel Against Iran Attack,” *Baltimore Sun*, April 16, 2009.

this time to be trying to establish timetables, but rather seeing how the engagement can move forward.”⁴³

On May 10, National Security Advisor Gen. James Jones (ret.) said that the United States understands “Israel’s preoccupation with Iran as an existential threat. We agree with that ... and by the same token, there are a lot of things you can do to diminish that existential threat by working hard toward achieving a two-state solution.”⁴⁴ In a *Newsweek* interview, President Obama said that he did not think it was his place “to determine for the Israelis what their security needs are.” However, he noted that he could “make an argument to Israel as an ally that the approach we are taking (toward Iran) is one that has to be given a chance and offers the prospect of security, not just for the United States but also for Israel, that is superior to some other alternatives.” He also said that “if it doesn’t work, the fact that we have tried will strengthen our position in mobilizing the international community, and Iran will have isolated itself.” After his May 18 meeting with Netanyahu, President Obama said that he intended to “gauge and do a reassessment by the end of the year” on whether there is “serious movement on the part of the Iranians.” The President linked the peace process and Iran issues, noting that progress in the former would gain international support for dealing with Iran. He also said that the United States “is not foreclosing a range of steps, including much stronger international sanctions.” At their meeting, the two leaders agreed to form a high-level working group on Iran. Defense Minister Ehud Barak said that Israel would like any dialogue with Iran to be “limited in time, and that in parallel, widespread and effective sanctions should be prepared that would include financial sanctions and sanctions on refined oil products imported by Iran.”⁴⁵

Meanwhile, on May 12, the head of Israeli Military Intelligence, Maj. Gen. Amos Yadlin, had told a Knesset committee that “Iran is intentionally advancing its nuclear development in such a way so as not to cross any nuclear red lines by enriching low-grade uranium that is not sufficient for weapons development, but that can quickly adapt to weapons-grade uranium in such a short period of time that the process can’t be sabotaged.”⁴⁶ On June 1, the head of Israel’s Military Intelligence Research Division, Brig. Gen. Yossi Baidatz, said told a Knesset committee that Iran will have enough fissile material for its first nuclear bomb this year.⁴⁷ He added, “Iran is extremely troubling because of its speed.”

While visiting Moscow on June 2, Foreign Minister Lieberman averred, “Israel is not planning to bomb Iran... We do not have a need” to carry out attacks on Iran. “Israel is a strong country and we can defend ourselves.” He suggested that an Iran in the nuclear club would trigger an arms race in the Middle East so it is a global problem, not a problem to be solved by Israel.⁴⁸

Following the line of his predecessor, Netanyahu said that Israel’s main problem is the threat that Iran presents to Israel, the region, and peace, and that Israel’s policy for dealing with it is to enlist an international front to increase sanctions and preserve Israel’s security interests.⁴⁹

⁴³ Hilary Leila Krieger, “White House Rejects Iran Deadlines,” *Jerusalem Post*, April 29, 2009.

⁴⁴ Hilary Leila Kreiger, “Top Obama Advisor: Iranian Threat Reinforces Need for Two-State Solution,” *Jerusalem Post*, May 11, 2009, quoting Jones’s comments on ABC Television “This Week” broadcast on May 10, 2009.

⁴⁵ Herb Keinon, “Israeli, US Officials Huddle in UK Over Settlements, Iran,” *Jerusalem Post*, May 27, 2009.

⁴⁶ Rebecca Anna Stoil, “Yadlin: Iran Closer to Nuke Technology,” *Jerusalem Post*, May 12, 2009.

⁴⁷ Amnon Meranda, “MI: Iran Could Have Bomb by Year’s End,” <http://www.ynet.com>, June 1, 2009.

⁴⁸ “Lieberman: Israel has No Plans to Attack Iran,” <http://www.haaretz.com>, June 3, 2009.

⁴⁹ “Policy Speech by PM Netanyahu at Special Knesset Session,” accessible via Israeli Ministry of Foreign Affairs (continued...)

On June 16, Director of Mossad (Institute for Intelligence and Special Operations—Israel’s foreign intelligence and spy agency) Meir Dagan estimated that Iran would have a nuclear bomb by 2014, suggesting that Israel’s intelligence agencies may have made different assessments.

In June, Israel sent a submarine capable of launching a nuclear missile and a missile class warship through the Suez Canal into the Red Sea and, in July, two missile class warships took the same route. Some observers suggested that the deployments were preparation for a possible attack on Iran’s nuclear facilities.⁵⁰

On July 5, Vice President Joe Biden appeared to give Israel a “green light” to attack Iran’s nuclear facilities when he responded to a question regarding U.S. policy toward a possible Israeli strike on Iran by saying “we cannot dictate to another sovereign nation what they can and cannot do.”⁵¹ On July 7, President Obama dampened this potentially controversial remark by declaring that the United States had “absolutely not” given Israel a green light for an attack, adding “We have said directly to the Israelis that it is important to try and resolve this in an international setting in a way that does not create a major conflict in the Middle East.... It is the policy of the United States to resolve the issue of Iran’s nuclear capabilities in a peaceful way through diplomatic channels.”⁵²

On July 22, Secretary of State Clinton said that if Iran continued pursuing nuclear capabilities, then the United States would extend a defense umbrella over the region. Israel’s Deputy Prime Minister and Minister of Intelligence and Atomic Energy Dan Meridor observed that her statements appeared to suggest that the United States had come to terms with a nuclear Iran, which is a mistake.⁵³

On July 27, Secretary of Defense Gates visited Israel and said that he thought that the United States and Israel were in “full agreement” on the negative consequences of Iran obtaining nuclear capability. He also said that the two are “also agreed that it is important to take every opportunity to try and persuade the Iranians to reconsider what is actually in their own security interest.” He thought that Netanyahu and Barak were “perfectly willing to allow this process of attempted engagement to go forward.” Gates stated that the Iranians would not be allowed to use the cover of engagement “to run out the clock” while they continued to make progress on the nuclear programs. He maintained, “The timetable that the President has laid out still seems to be viable and does not significantly increase the risks to anybody.” For his part, Barak said, “We are in no position to tell the (U.S.) Administration whether to run an engagement with Iran or not. But if there is an engagement, we believe it should be short in time, well defined in objectives, followed by sanctions.” He repeated three times that Israel was taking “no option off the table.” Gates also

(...continued)

website, July 22, 2009, <http://www.mfa.gov.il>.

⁵⁰ Sheera Frenkel, “Israeli Navy in Suez Canal Prepares for Potential Attack on Iran,” <http://www.timesonline.co.uk>, July 16, 2009.

⁵¹ Interview on ABC’s This Week program, July 5, 2009.

⁵² Hilary Leila Krieger, “Obama Says ‘Absolutely’ no Green Light for Israeli Action Against Iranian Nuke Sites,” *Jerusalem Post*, July 8, 2009.

⁵³ Mark Landler and David E. Sanger, “Clinton Speaks of Shielding Mideast from Nuclear Iran,” *New York Times*, July 23, 2009.

promised, “We will continue to ensure that Israel has the most advanced weapons for its national defense.”⁵⁴

Israel also is concerned about Iran’s support for anti-Israeli terrorist groups. Iran provides financial, political, and/or military support to the Lebanese Hezbollah as well as to Hamas, Palestinian Islamic Jihad (PIJ), the Al Aqsa Martyrs’ Brigades, and the Popular Front for the Liberation of Palestine-General Command—Palestinian terrorist groups that do not accept Israel’s existence and seek to obstruct the peace process.

Palestinian Authority

During the Oslo peace process of the 1990’s, Israelis and Palestinians negotiated a series of agreements that resulted in the creation of a Palestinian Authority (PA) with territorial control over parts of the West Bank and the entire Gaza Strip. After Ariel Sharon came to power in 2001 and during the *intifadah* or Palestinian uprising against Israeli occupation, Israel refused to deal with the late Palestinian leader Yasir Arafat. Israel’s relations with the PA and its leaders improved after Arafat’s death in November 2004 and the election of Mahmud Abbas as President of the PA in January 2005. Although Israeli officials described the 2005 disengagement from the Gaza Strip as unilateral, they met with Palestinian counterparts to coordinate security for the disengagement and disposition of Israeli assets in Gaza.

Israel has at least 242 settlements, other civilian land use sites, and 124 unauthorized settlement outposts in the West Bank and 29 settlements in East Jerusalem—all areas that the Palestinians view as part of their future state. Israel retains military control over the West Bank and is building a security barrier on West Bank territory to separate Israelis and Palestinians and prevent terrorists from entering Israel. Palestinians object to the barrier being built on their territory. The barrier, which is about 60% complete, is taking the form of a future border between Israel and Palestine and cuts Palestinians off from East Jerusalem and, in some places, from each other and some of their land.

The Israeli government 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 2003.⁵⁵ 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.

Israel initially refused to negotiate with Hamas for the return of Cpl. Gilad Shalit, an Israeli soldier kidnapped on June 25, 2006. After the kidnapping, Israel arrested members of the Hamas-

⁵⁴ Greg Jaffe, “US and Israel Differ on Strategy if Iran Talks Fail; Leaders Agree Goal is to Bar Nuclear Arms,” *Washington Post*, July 28, 2009, Richard Boudreaux, “Gates’ Israel Trips Aims to Ease Iran Worries,” *Los Angeles Times*, July 28, 2009.

⁵⁵ For text, see <http://www.state.gov/r/pa/prs/ps/2003/20062.htm>.

led PA government and legislature for participating in a terrorist group, and Israeli forces conducted military operations against Hamas and other militant groups in the Gaza Strip as well as in the West Bank.

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

Olmert and Abbas began meeting regularly in summer 2007, and, as President Bush announced at the Annapolis Conference on November 27, reached a “Joint Understanding” to simultaneously begin continuous bilateral negotiations for a peace treaty and implement the Road Map. Those negotiations continued through 2008, with teams led by Foreign Minister Livni and former Palestinian Prime Minister Ahmed Quray. The domestic political turmoil in both Israel and the Palestinian Authority produced a *de facto* suspension in negotiations.

Indirectly via Egyptian mediators, Israel and Hamas agreed to a six-month cease-fire in June 2008 and continued to negotiate a prisoner exchange. Hamas did not renew the cease-fire in December, and an escalation in rocket fire from Gaza into southern Israel followed the expiration date. On December 27, Israeli forces began Operation Cast Lead to end the threat to southern Israel from Gaza. It lasted for three weeks.

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.⁵⁶

Netanyahu avoided reference to a Palestinian state. Ostensibly under considerable pressure from the Obama Administration, Netanyahu stated for the first time on June 14, that Israel would accept the establishment of a Palestinian state.⁵⁷ However, he also demanded that the Palestinians recognize Israel as the nation-state of the Jewish people, that the problem of the refugees be solved outside of Israel, effective demilitarization of the Palestinian state, 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, but Palestinian negotiators charged that the Prime Minister had taken all final status issues off the

⁵⁶ Address to the Knesset by Prime Minister-designate Binyamin Netanyahu introducing Israel’s 32nd Government, Channel 10 Television, March 31, 2009, Open Source Center Document GMP20090331738004.

⁵⁷ Text of speech at Bar Ilan University accessible via <http://www.pmo.gov.il>.

table. PA President Abbas has demanded that Israel halt all settlement activities and accept the 1967 borders as “terms of reference” before talks begin.

Egypt⁵⁸

After fighting four wars in as many decades, Israel and Egypt signed a peace treaty in 1979. In 1982, Israel withdrew from the Sinai Peninsula, which it had taken in the 1967 war. Egypt and Israel established diplomatic relations, although Egypt withdrew its ambassador during the four years of the second *intifadah* (Palestinian uprising against Israeli occupation), 2001-2005, because it objected to Israel’s “excessive” use of force against the Palestinians. Some Israelis refer to their ties with Egypt as a “cold peace” because full normalization of relations, such as enhanced trade, bilateral tourism, and educational exchanges, has not materialized. Egyptian President Hosni Mubarak has visited Israel only once—for the funeral of Prime Minister Yitzhak Rabin. Outreach is often one way, from Israel to Egypt. Egyptians say that they are reluctant to engage because of Israel’s continuing occupation of Arab lands. Israelis are upset by some Egyptian media and religious figures’ anti-Israel and occasionally anti-Semitic rhetoric.

The Egyptian government often plays a constructive role in the Arab-Israeli peace process, hosting meetings and acting as a liaison. After the January 2006 Hamas election victory in the Palestinian territories, Egyptian officials unsuccessfully urged the group to accept the 2002 Arab Peace Initiative that offers Israel recognition within its 1967 borders in exchange for full normalization of relations with Arab countries. Egypt supports President Mahmud Abbas generally in order to ensure that there is a Palestinian partner for peace negotiations with Israel. 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. Egyptian intelligence chief Omar Suleiman (also transliterated Umar Sulayman) 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 750 border guards to secure the Rafah crossing after Israel’s disengagement from Gaza in 2005. Israel refused an Egyptian request to deploy military border guards, instead of police, for greater control of smuggling along the entire border in Sinai. Israelis argued that an increased military presence would require changes in the military annex to the 1979 peace treaty and contend that 750 border guards plus 650 general police who also are present should suffice to do the job, if there is the will. Israeli officials repeatedly expressed frustration with Egypt’s failure to control arms-smuggling into Gaza. P.L. 110-161, the Consolidated Appropriations Act, 2008, signed into law on December 26, 2007, would have withheld \$100 million in Foreign Military Financing (FMF) from Egypt until the Secretary of State reported that Cairo had taken steps to detect and destroy the smuggling network and tunnels that lead from Egypt to Gaza, among other measures. Egypt rejected the conditions and, on December 31, Foreign Minister Ahmad Abu al Ghayt blamed the “Israel lobby” for trying to damage Egyptian interests in Congress, and warned that Egypt would retaliate if Israel continued trying to undermine Cairo’s ties to Washington.⁵⁹

⁵⁸ See also, CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.

⁵⁹ “Egypt Warns Israel not to Undermine Ties to U.S.,” Reuters, December 31, 2007.

In November 2007, the U.S. Army Corps of Engineers sent a team to examine the tunnels under the Egypt-Gaza border. President Mubarak said that Egypt was following U.S. advice and obtaining advanced equipment to detect tunnels; it was to spend \$23 million of its U.S. FMF for this purpose. In March 2008, Secretary of State Condoleezza Rice confirmed that she had waived the congressional hold on \$100 million in FMF for Egypt.

After Hamas blew up the border wall on January 23, 2008, allowing tens of thousands of Gazans to stream into Egypt, Egyptian forces did not block their entry. Israeli officials said that they expected Egypt to bring the situation under control. Egypt resealed the border, but was unable to achieve a new arrangement for border control mainly because Hamas insisted on participating and excluding Israel, and President Abbas refused to deal with Hamas. Israeli officials reportedly were pleased with Egypt's decision to construct a new, concrete border wall, complete with outlook posts and surveillance systems, to replace the one that had been blown up.⁶⁰

On June 16, the Bush Administration disclosed that a U.S. army team had begun training Egyptian forces in using electronic equipment to detect smuggling tunnels.⁶¹ According to the Egyptian Embassy in Washington, "In October 2008, training sessions for Egyptian officers were held in Egypt to use the new equipment at a training site set specifically for that purpose. Pentagon officials commended the seriousness and skills of the Egyptian officers trained to use these equipment. The Border Guards started employing the new US equipment upon their arrival in January 2009."⁶² The U.S. Army Corps of Engineers also may have assisted Egypt in installing advanced cameras and sensors, such as ground-penetrating radar. Reports indicate that U.S. assistance to the Border Guard Force is somewhat deterring smuggling activity.⁶³ On May 19, 2009, Chief of Shin Bet (Israel's internal security service) Yuval Diskin told a Knesset committee that, "The Egyptians are making significant efforts in order to thwart smuggling ... and recently it is even possible to discern an improvement in their achievements."⁶⁴

In December 2009, Egypt confirmed that it is building 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. It said that the action was for Egypt's national security.

Egypt is continuing play a key role in mediating reconciliation between Fatah and Hamas and arranging an exchange in which Israel would free Palestinian prisoners for the return of Cpl. Shalit. It has not yet succeeded in these efforts.

In April 2009, Egyptian officials revealed an alleged Hezbollah plot to smuggle arms into the Gaza Strip, attack Israeli tourist sites in the Sinai Peninsula, and to fire on ships in the Suez Canal. Some 25 Egyptian, Palestinian, Sudanese, and Lebanese men were arrested. Hezbollah leader Shaykh Hassan Nasrallah denied plans for attacks on Egyptian soil.

⁶⁰ Yaakov Katz, "Israel Impressed by Cairo's Efforts at Gaza Border," *Jerusalem Post*, March 12, 2008.

⁶¹ Under the 1976 Arms Export Control Act, Major defense equipment is defined as any item of significant military equipment on the U.S. Munitions List having a nonrecurring research and development cost of more than \$50 million or a total production cost of more than \$200 million.

⁶² Embassy of Egypt Fact Sheet, February 6, 2009.

⁶³ "Gaza Smugglers Say Egypt Tightening Tunnel Trade," *Agence France Presse*, February 8, 2009.

⁶⁴ "Shin Bet: No Chance for Peace While Hamas Rules Gaza," www.haaretz.com, May 19, 2009.

Egyptian-Israeli relations also have 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.

In a fit of diplomatic pique, Egypt said that it would not participate in a Euro-Med conference in November 2009 if Israeli Foreign Minister Lieberman attended. As a result, France, the host, postponed the meeting. Before taking office, Lieberman had been quoted as saying that President Mubarak could “go to hell” if he continued to choose not to visit Israel. Since he became foreign minister, Lieberman has been persona non grata in Egypt and other Israeli officials handle bilateral relations.

Jordan⁶⁵

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.

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

After Hamas took over Gaza in June 2007, speculation revived concerning a possible union between Jordan and the West Bank, which some 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

⁶⁵ 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.

Palestinian issue at their expense.”⁶⁶ In 1988, the King’s father had disengaged Jordan from the West Bank and accepted the Palestine Liberation Organization (PLO) as the sole body responsible for Palestinian areas.

Syria

Israel and Syria have fought several wars and, except for rare breaches, have maintained a military truce along their border for many years. Yet, they failed to reach a peace agreement in negotiations that ended in 2000. Since 1967, Israel has occupied Syria’s Golan Heights and, in December 1981, effectively annexed the region by applying Israeli law there. There are 42 Israeli settlements and 20,000 settlers on the Golan. Syrian President Bashar al Asad called for unconditional peace talks with Israel, while Israeli officials demanded that he first cease supporting the Lebanese Hezbollah militia, expel Palestinian rejectionist groups (i.e., those who reject an Israeli-Palestinian peace process and the existence of Israel), and cut ties with Iran. Israel views the last demand as “of supreme strategic interest” because it would sever Iran’s access to Israel’s border.⁶⁷

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, sparking an Israeli-Hezbollah war, some rightwing Israeli politicians demanded that it be expanded to include Syria. However, the government and military did not want to open a third front against Syria in addition to those against Hezbollah in Lebanon and Hamas in Gaza. U.S. officials demanded that Syria 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.

In September 2006, Prime Minister Olmert, declared, “As long as I am prime minister, the Golan Heights will remain in our hands because it is an integral part of the State of Israel.”⁶⁸ He also indicated that he preferred not to differ with the Bush Administration’s policy of not dealing with Syria due to its support for terrorists, destabilizing of Lebanon, and failure to control the

⁶⁶ 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.

⁶⁷ ‘PM Olmert’s Speech at the Institute for National Security Studies Annual Conference,’ (Israeli) Government Press Office, Open Source Center Document GMP20081219735004.

⁶⁸ “Olmert Tells Israeli Paper: Golan ‘An Integral Part of the State of Israel,’” *Yedi’ot Aharonot*, September 26, 2006, citing a *Mishpaha* newspaper interview, Open Source Center Document GMP20060926746002.

infiltration of insurgents into Iraq. However, 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.”⁶⁹ 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. Olmert acknowledged that the price of peace would be Israeli withdrawal from the Golan.

On September 6, 2007, the Israeli Air Force carried out an air raid against a site in northeastern Syria. The Israeli government did not comment about the strike or provide details and considerable speculation about the likely target ensued. On September 12, the *New York Times* alleged that the target may have been a nuclear weapons installation under construction with North Korean-supplied materials, which Syrian and North Korean officials denied. U.S. officials later confirmed that it was a nuclear reactor.⁷⁰ Syria did not retaliate for the air raid or end talks with Israel.

Israeli-Syrian talks were suspended after four rounds primarily due to Israel’s domestic political turmoil and imminent national election. And, as a result of Israel’s military campaign against Hamas in December 2008, Turkey officially ended its efforts to organize additional peace talks between Israel and Syria.

In an interview published on March 9, 2009, President Asad said that a peace “agreement” with Israel was possible, but that the Syrian people would not accept “peace,” meaning trade, normal relations, and open borders, until the Palestinian issue is resolved.⁷¹ In an interview published two days later, he reiterated his long-standing view that, “We need the United States to act as a mediator when we move from the current indirect negotiations to direct negotiations.”⁷² In a speech to the Arab League on March 31, Asad called on Arabs to take a harder line to cope with the incoming Israeli government of Benjamin Netanyahu. He stated, “Peace cannot be achieved with an enemy who does not believe in peace without it being imposed on him by resistance,” which he described as a “moral duty.”

New Israeli Foreign Minister Avigdor Lieberman said on April 2, “there is no (Israeli) cabinet resolution regarding negotiations with Syria, and we have already said that we will not agree to withdraw from the Golan Heights. Peace will only be in exchange for peace.”⁷³

⁶⁹ “Syrian President Confirms Turkey’s Mediation Between Syria, Israel,” *Al-Watan* (Doha), April 24, 2008, BBC Monitoring Newsfile.

⁷⁰ On April 24, 2008, National Security Advisor Stephen Hadley, CIA Director Michael Hayden, and Director of National Intelligence Mike McConnell presented evidence to congressional committees that the Israeli target was a nuclear reactor. Hayden said that it could have produced enough material for at least one weapon, but expressed “low confidence” that the site was part of a nuclear weapons program.

⁷¹ “Peace with Israel Possible, Says Syria’s Assad,” Reuters, March 9, 2009.

⁷² Interview quoted by Yoav Stern, “Assad: Direct Israel Talks Possible if U.S. Mediates,” <http://www.haaretz.com>, March 11, 2009.

⁷³ Ravid, April 2, 2009, op. cit.

Lebanon⁷⁴

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 as the Israeli occupation continues. Hezbollah took control of the former “security zone” after Israeli forces left and attacked Israeli forces in Shib’a and northern Israeli communities. The Lebanese government considers Hezbollah to be a legitimate resistance group and a political party represented in parliament, and it did not act to stop the attacks. Israel views Hezbollah as a terrorist group.

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). The U.N. reports that Hezbollah is rearming via smuggling across the Lebanese-Syrian border.

On May 31, 2008, Hezbollah handed over the remains of five Israeli soldiers killed in 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.

Iraq

In a March 12, 2007, speech, Prime Minister Olmert warned against the consequences of a “premature” U.S. withdrawal from Iraq, arguing that a negative outcome there would harm Israel, the Gulf States, and the stability of the Middle East as well as the ability of the United States to address threats emerging from Iran.⁷⁵ Israel’s Ambassador to the United States expressed hope that withdrawal from Iraq would be done “in such a way that does not strengthen Iran and Al Qaeda or boost organizations such as Hezbollah and Hamas, so that we don’t face a new eastern

⁷⁴ See CRS Report RL31078, *The Shib'a Farms Dispute and Its Implications*, by Alfred B. Prados.

⁷⁵ For text of speech, see <http://www.pmo.gov.il/PMOEng/Communication/PMSpeaks/speechaipac130307.htm>.

front from Iran to Kfar Saba.”⁷⁶ The late Israeli commentator Ze’ev Schiff suggested that if Arabs interpret America’s withdrawal as a sign of defeat, then Israel could look forward to a radical Arab shift that would strengthen extremists.⁷⁷ Others have opined that Israel fears that a U.S. withdrawal would be seen as a victory for Iran and could prompt Syria to consider military options to recover the Golan Heights.⁷⁸ Some of these sentiments may have influenced H.Rept. 110-60, March 20, 2007, to accompany H.R. 1591, Emergency Supplemental Appropriations for FY2007, which stated, “The fight in Iraq is also critical to the future of Israel. A failure in Iraq will further destabilize the region, posing a direct threat to Israel. We must not let that occur to our friend and ally.” (President Bush vetoed the bill for unrelated reasons on May 1, 2007. H.R. 2206 was passed in its place and was signed into law as P.L. 110-28, on May 25, 2007.)

Other

Aside from Egypt and Jordan, Israel has diplomatic relations with majority-Muslim Turkey, Azerbaijan, and Kazakhstan and has had interest or trade offices in Morocco, Tunisia, Oman, and Qatar. The latter four suspended relations with Israel during the Palestinian *intifadah* and the offices have not reopened. Mauritania, which had diplomatic relations with Israel, withdrew its ambassador on January 5, 2009, due to what it described as Israel’s “aggression” against the Palestinian people in its offensive against Hamas in the Gaza Strip. Mauritania later ordered the Israeli embassy to close. For the same reason, Qatar froze economic ties, asking the staff of the Israeli trade office to leave the country.

Turkish-Israeli relations blossomed in the mid-1990’s 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. Yet, it did not happen until the AKP welcomed a visit by Hamas leader Khalid Mish’al shortly after Hamas won the January 2006 Palestinian legislative elections and Turkish Prime Minister Recep Tayyip Erdogan criticized the international community for seeking to isolate Hamas despite its democratic victory. Nonetheless, as noted above, Israel still considered Turkey useful as a mediator in 2008. (By that time, the AKP had brought about a warming of relations between Ankara and Damascus.) Israel’s perception has now changed. Revival of Syrian-Israeli talks had been the subject of discussions between Erdogan and then Israeli Prime Minister Olmert in Turkey days before Israel launched its Gaza military campaign in December 2008. Erdogan charged that Olmert had disrespected him by not informing him of Israel’s military plans during those discussions. Erdogan then repeatedly criticized Israel’s conduct toward the Palestinians during and since the operation against Hamas. He accused Israel of “crimes against humanity” in the deaths of Palestinian civilians and in its blockade of the Gaza Strip and walked out of a session of the Davos World Forum to protest Israeli President Peres’s defense of Israel’s offensive and what Erdogan considered Peres’s disrespectful tone. Mainly because of these kinds of statements, Prime Minister Netanyahu has questioned Turkey’s ability to act as an impartial intermediary in the Israeli-Syrian talks.

However, some Israeli officials who had viewed Turkey as a friend in a hostile region would like to get beyond what they hope is a transitory period of tension. Minister of Industry, Trade, and

⁷⁶ Interview by Tal Schneider, *Ma’ariv*, April 27, 2007, Open Source Center Document GMP20070427754006.

⁷⁷ Ze’ev Schiff, “US Withdrawal in Iraq to Strengthen Arab Extremists Around Israel,” *Haaretz*, April 20, 2007.

⁷⁸ Hussein Agha, “The Last Thing the Middle East’s Main Players Want is US Troops to Leave Iraq,” *The Guardian*, April 25, 2007.

Labor Benjamin Ben Eliezer visited Turkey and, reportedly, Defense Minister Ehud Barak may visit soon. Both ministers notably are from the Labor Party and not from Prime Minister Netanyahu's Likud Party or from Foreign Minister Avigdor Lieberman's Yisrael Beiteinu Party – the two largest parties in Israel's governing coalition.

Israel's relations with other Muslim and Arab countries have varied. Former Foreign Minister Silvan Shalom had predicted that relations with Arab and Muslim countries would improve due to Israel's disengagement from Gaza. The first diplomatic breakthrough was his September 1, 2005, meeting in Istanbul with the Pakistani foreign minister, although Pakistani officials asserted that they would not recognize Israel until an independent Palestinian state is established. On September 14, Pakistan's President Pervez Musharraf shook Prime Minister Sharon's hand in a "chance" meeting at the U.N. General Assembly opening session. In October, Pakistan accepted Israeli humanitarian aid after a devastating earthquake. In April 2007, Musharraf offered to mediate between Israel and the Palestinians and said that he would be willing to visit Israel to help bring peace to the Middle East. Prime Minister Olmert declined the offer, preferring to deal directly with Palestinian President Abbas.

Shalom also met the Indonesian, Qatari, Algerian, Moroccan, and Tunisian foreign ministers at the U.N. In September 2005, Bahrain ended its economic boycott of Israel, a move required by the World Trade Organization and the Bahrain-U.S. Free Trade Agreement, but it vowed not to normalize relations.

Tunisian President Zine El Abidine Ben Ali sent a personal letter to Sharon, praising his "courageous" withdrawal from Gaza. Foreign Minister Shalom attended the World Summit on the Information Society November 2005 and Knesset Members attended the European-Mediterranean Parliamentary Assembly in March 2007; both events were held in Tunis.

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

Azerbaijan supplies about 20% of Israel's oil needs and reportedly is purchasing Israeli arms. Israel reportedly has listening and surveillance posts on the Azerbaijan-Iran border.⁷⁹ Foreign Minister Lieberman has announced plans to open an embassy in Turkmenistan.

⁷⁹ Yonatan Spyer, "Peres' Central Asia Tour 'Significant Advance for Israeli Ambitions,'" *Jerusalem Post*, July 2, 2009.

European Union⁸⁰

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 capital of two states.”⁸¹ 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 as Israel demands. Israel has protested meetings between European ambassadors and Hezbollah ministers in the Lebanese cabinet. However, European countries have contributed military forces to the expanded UNIFIL, which needs to communicate with Hezbollah, and contacts might be impeded by a terrorist designation. Some Europeans also believe that they should be in touch with the political wing of Hezbollah because it is participating in the Lebanese government. On June 13, 2009, EU High Representative for the Common Security and Foreign Policy Javier Solana held

⁸⁰ 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.

⁸¹ “EU Calls for Jerusalem to be Shared Capital,” *Boston Globe*, December 9, 2009.

talks with a Hezbollah legislator for the first time, prompting the Israeli Foreign Ministry to demand “clarification.”

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.⁸²

On April 14, 2009, then European Commissioner for External Relations and ENP Benita Ferrero-Waldner noted that the offer of upgrading still stands provided that the EU is sure that the two sides “are working with the same terms of reference.” For the Europeans, she said, this means “work for a prosperous, secure, and peaceful Middle East, with an independent, viable, and democratic Palestinian state living peacefully beside Israel, with East Jerusalem as its capital.” Ferrero-Waldner stated that the EU expects the new Israeli government to help implement this vision, but that activities on the ground in Jerusalem (e.g., demolition of some Palestinian homes) run counter to it and that expanding illegal settlements and security perimeters is unhelpful, as is “holding a population of 1.5 million Palestinians in Gaza hostage for acts, however dangerous and illegal, over which they have no control.”⁸³ While in Italy on May 6, 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.

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.

⁸² Herb Keinon, “EU, Israel ‘Time-Out’ on Upgrading Ties Until ‘Favorable Atmosphere after Gaza Op,” *Jerusalem Post*, January 15, 2009.

⁸³ Benita Ferrero-Waldner, “The Offer on the Table,” <http://www.haaretz.com>, April 18, 2009.

Peace Process

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

In June 2002, President George W. Bush outlined his vision of a democratic Palestine to be created alongside Israel in a three-year process.⁸⁴ U.S., European Union, Russian, and U.N. representatives built on this vision to develop the Performance-Based Road Map to a Permanent Two-State Solution to the Israeli Palestinian Conflict.⁸⁵

Secretary of State Condoleezza Rice did not name a Special Middle East Envoy, and said that she would not get involved in direct Israeli-Palestinian negotiations of issues and preferred to have the Israelis and Palestinians work together. However, after the Administration supported Israel's disengagement from Gaza mainly as a way to return to the Road Map, Secretary Rice personally mediated an accord to secure the reopening of the Rafah crossing between Gaza and Egypt in November 2005, but it 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 government, and the Administration later agreed with Israel's preconditions for dealing with it. In 2007, Rice tried to get the Israelis and Palestinians to focus on what she described as a "political horizon" for the Palestinians. President Bush convened an international meeting in Annapolis, MD on November 27 to support bilateral negotiations between Israel and the Palestinians, and Secretary Rice subsequently traveled to the region often to urge progress.

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."⁸⁶ She repeatedly emphasized that the U.S. goal remains a two-state solution to the Israeli-Palestinian conflict. President Obama called Prime Minister Netanyahu to congratulate him and said that he looked forward to working with him and his government "to address issues of mutual concern, including Iran and Arab-Israeli peace." The State Department spokesman said

⁸⁴ See <http://www.whitehouse.gov/news/releases/2002/06/20020624-3.html> for text of President's speech.

⁸⁵ See <http://www.state.gov/r/pa/prs/ps/2003/20062.htm> for text of Road Map.

⁸⁶ Gwen Ackerman and Viola Giengar, "Clinton says Israel Can't 'Stand Idly By' over Gaza," <http://www.bloomberg.com>, March 3, 2009.

that the Administration would work closely with Netanyahu's government "to advance the cause of peace and stability in the Middle East and move the parties in the direction of a two-state solution."

Prime Minister Netanyahu and President Obama met on May 18 and appeared to differ on possible linkage between the peace process and Iran. The President said that peace between Palestinians and Israelis would help garner support in the international community to deal with a potential Iranian threat, whereas the Prime Minister sought to have Iran dealt with as a priority.

Settlements

All recent U.S. Administrations have disapproved of Israel's settlement activity as prejudging final status issues and possibly preventing the emergence of a geographically contiguous Palestinian state. On April 14, 2004, however, President Bush noted the need to take into account changed "realities on the ground, including already existing major Israeli population centers" (i.e., settlement blocs), asserting "it is unrealistic to expect that the outcome of final status negotiations will be full and complete return to the armistice lines of 1949."⁸⁷ He later emphasized that it was a subject for negotiations between the parties.

In his June 4, 2009, speech in Cairo, President Obama told an Arab audience that, "The United States does not accept the legitimacy of continued Israeli settlements. This construction violates previous agreements and undermines efforts to achieve peace. It is time for these settlements to stop...."⁸⁸

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 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.

Syrian Talks

The United States has never recognized Israel's annexation of the Golan Heights, which it views as a violation of international law. However, the Bush Administration did not attempt to revive Israeli-Syrian peace talks. Olmert and the Administration generally agreed on isolating Damascus until it ended its relations with terrorists and Iran. Yet, some in the Israeli coalition, Knesset, and

⁸⁷ For text of Bush letter to Sharon, see <http://www.whitehouse.gov>.

⁸⁸ http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-Cairo-University-6-04-09/

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 and believe that peace with Syria would be easier to achieve than one with the Palestinians.

Israel and Syria held indirect negotiations via Turkish mediators in 2008. The United States was not a party to this process. The State Department spokesman said, “We don’t think that any other track or any other negotiating path ought to be a substitute or a distraction from the primary set of discussions and negotiations between Israel and the Palestinians.”⁸⁹ However, Secretary Rice said, “We would welcome any steps that might lead to a comprehensive peace in the Middle East.... We are working very hard on the Palestinian track. It doesn’t mean that the U.S. would not support other tracks.” White House spokeswoman Dana Perino added, “What we hope is that this is a forum to address various concerns that we all share about Syria—the United States, Israel, and many others—in regard to Syria’s support for Hamas and Hezbollah (and) the training and funding of terrorists that belong to these organizations.... We believe it could help us to further isolate Iran.”⁹⁰

Democratization Policy

Some Israeli officials questioned possible unintended consequences of the U.S. democratization policy in the Middle East, believing that it aided extremist organizations to gain power and to be legitimized. Alarmed, they cited the examples of Hezbollah in Lebanon, Hamas in the Palestinian Authority, and the Muslim Brotherhood in Egypt.⁹¹

Trade and Investment

Israel and the United States concluded a Free Trade Agreement in 1985, and all customs duties between the two trading partners have since been eliminated. The FTA includes provisions that protect both countries’ more sensitive agricultural sub-sectors with non-tariff barriers, including import bans, quotas, and fees. Israeli exports to the United States have grown since the FTA became effective. As noted above, qualified industrial zones in Jordan and Egypt are considered part of the U.S.-Israeli free trade area. In 2008, Israel imported \$564 million goods from the United States and exported \$1.344 billion in goods to the United States.⁹²

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

⁸⁹ Ashraf Khalil, “Israel’s Peace Efforts Widen,” *Los Angeles Times*, June 21, 2008.

⁹⁰ Cam Simpson, “Israel, Syria in Indirect Peace Talks,” *Wall Street Journal*, May 22, 2008, “US Welcomes Syrian-Israeli Talks but Stresses Palestinian Track,” Yahoo! News, May 21, 2008, “Rice: Israeli-Palestinian Track Most Likely to Produce Results,” Associated Press, May 22, 2008.

⁹¹ For example, head of Military Intelligence Maj. Gen. Amos Yadlin, quoted in Ahiya Raved, “Intelligence Chief: Strategic Threats on Israeli Rising,” *Ynetnews*, June 20, 2006, Open Source Center Document GMP20060621746004.

⁹² Israeli Central Bureau of Statistics website, accessed May 21, 2009.

Energy Cooperation

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

P.L. 110-140, December 19, 2007, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act of 2007, called for U.S.-Israeli energy cooperation and authorized the Secretary of Energy to make grants to businesses, academic institutions, nonprofit entities in Israel and to the government of Israel to support research, development, and commercialization of renewable energy or energy efficiency. In November 2009, the U.S. Department of Energy announced grants of \$3.3 million to four joint U.S.-Israeli companies for "clean technology" projects.

Aid ⁹³

Israel was the largest recipient of U.S. foreign aid after 1976 and until Iraq supplanted it after 2003. In 1998, Israeli, congressional, and Administration officials agreed to reduce U.S. \$1.2 billion in Economic Support Funds (ESF) to zero over ten years, while increasing Foreign Military Financing (FMF) from \$1.8 billion to \$2.4 billion. After meeting Prime Minister Olmert at the White House on June 19, 2007, President Bush said that a new 10-year aid agreement would be signed to ensure that Israel retains a "qualitative military edge." The President also directed Secretary of Defense Robert Gates to expedite approval of Israel Defense Forces' procurement requests in order to replenish arms and materiel used during the 2006 war against Hezbollah in Lebanon. On August 13, Under Secretary of State Nicholas Burns and Israeli Foreign Ministry Director General Aharon Abramowitz signed a memorandum of understanding (MOU) to govern a new 10-year, \$30 billion aid package. Aid was to increase from \$2.4 billion in FMF in FY2008 to \$2.55 billion in FY2009, and average \$3 billion a year by the conclusion of the 10-year period. Israel is allowed to spend 26.3% of the aid in Israel; the remainder is to be spent on U.S. arms. Burns stated that "a secure and strong Israel is in the interests of the United States" and that the aid was an "investment in peace" because "peace will not be made without strength." Congress must approve the annual appropriations.

The House passed H.R. 2410, the Foreign Aid Authorization Act, Fiscal Years 2010 and 2011, on June 10, 2009. Among other provisions, it would authorize \$25 million for 2010 and "such sums as may be necessary" for 2011 for refugee settlement for Israel. It would increase the value of defense articles and services requiring congressional review and expedite congressional review for Israel. It would authorize "such sums as may be necessary" to complete accelerated co-production of the Arrow missile, a short-range ballistic missile capability, David's Sling weapons system, and "integrate the weapon system with the ballistic missile defense system and force protection efforts of the United States," and research, development, test, and evaluation of the Iron Dome short-range projectile defense system.⁹⁴ The bill also would require the President to report on U.S. officials' assurances to Israeli officials regarding Israel's security and maintenance of Israel's qualitative military edge and the Secretary of State to report on actions taken to encourage other countries to establish diplomatic relations with Israel. The Senate has not acted.

⁹³ For more details, see CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy M. Sharp.

⁹⁴ Iron domes uses small guided missiles to intercept rockets with ranges between 2 and 45 miles. They have been successfully tested and will be deployed in mid-2010.

Congress has legislated other special provisions regarding aid to Israel. Since the 1980s, ESF and FMF have been provided as all grant cash transfers, not designated for particular projects, and have been transferred as a lump sum in the first month of the fiscal year, instead of in periodic increments. Israel is allowed to spend about one-quarter of the military aid for the procurement in Israel of defense articles and services, including research and development, rather than in the United States. Finally, to help Israel out of its economic slump, P.L. 108-11, April 16, 2003, provided \$9 billion in loan guarantees (for commercial loans) over three years. P.L. 109-472, January 11, 2007, extended the period for which the guarantees are to be provided until September 30, 2011. Approximately \$3.148 billion remained as of December 15, 2009.

Finally, Congress also has legislated provisions related to protecting Israel's "qualitative military edge" (QME) in the region. H.R. 7177, the Naval Vessels Transfer Act of 2008, signed into law as P.L. 110-429 on October 15, 2008, Section 201, requires that any certification relating to a proposed sale or export of defense articles or services to any country in the Middle East other than Israel shall include a determination that the sale or export will not adversely affect Israel's qualitative military edge over military threats to Israel.

Security Cooperation

See also Aid, above.

Although Israel is frequently referred to as an ally of the United States, the two countries do not have a mutual defense agreement. Even without a treaty obligation, President Bush has said several times that the United States would defend Israel militarily in the event of an attack.⁹⁵ On May 14, 2008, he visited Israel to celebrate its 60th anniversary. In a speech to the Knesset, the President stated, "The alliance between our governments is unbreakable, yet the source of our friendship runs deeper than any treaty." He told Israel that it "can always count on America to stand at its side."

On November 30, 1981, U.S. Secretary of Defense Caspar Weinberger and Israeli Minister of Defense Ariel Sharon signed a memorandum of understanding (MOU), establishing a framework for consultation and cooperation to enhance the national security of both countries. In November 1983, the two sides formed a Joint Political Military Group (JPMG) to implement provisions of the MOU. Joint air and sea military exercises began in June 1984, and the United States has constructed facilities to stockpile military equipment in Israel. In 2001, an annual interagency strategic dialogue, including representatives of diplomatic, defense, and intelligence establishments, was created to discuss long-term issues.

In 2003, reportedly at the U.S. initiative due to bilateral tensions related to Israeli arms sales to China, the strategic dialogue was suspended. (See *Military Sales*, below.) After the issue was resolved, the talks resumed at the State Department on November 28, 2005. In January 2007, then Deputy Prime Minister and Minister of Transportation, and representative for the strategic dialogue Shaul Mofaz (a former Chief of Staff and former Defense Minister) reported that the dialogue would henceforth be held four times a year. In meetings in 2008, the delegations

⁹⁵ Interview with Reuters, cited in Glenn Kessler, "Bush Says U.S. Would Defend Israel Militarily," *Washington Post*, February 2, 2006. See also <http://www.whitehouse.gov/news/releases/2006/05/20060523-9.html> for transcript of joint Bush-Olmert news conference in May 2006.

discussed Iran's nuclear program, diplomatic and financial steps to prevent Iran from developing nuclear capability, and concerns over Hezbollah.

Secretary of Defense Gates' visit to Israel in April 2007 was the first by a U.S. Secretary of Defense in eight years and was seen as a sign that strains in the relationship had eased. His meetings included discussions of bilateral military-to-military relations, the peace process, Syria, Iran, and Iraq. Gates tried to assure his Israeli interlocutors that a planned U.S. arms sale to Saudi Arabia, reportedly to include satellite-guided munitions, was needed to counter the Iranian threat and would not threaten Israel's military superiority.⁹⁶

On May 6, 1986, Israel and the United States signed an agreement (the contents of which are secret) for Israeli participation in the Strategic Defense Initiative (SDI/"Star Wars"). Under SDI, Israel is developing the Arrow anti-ballistic missile with a total U.S. financial contribution so far of more than \$1 billion, increasing annually. The system became operational in 2000 in Israel and has been tested successfully. The U.S. DOD Missile Defense Agency has agreed to extend the U.S.-Israel Arrow System Improvement Program (ASIP) and post-ASIP through 2013. 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.⁹⁷

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

In 1988, under the terms of Sec. 517 of the Foreign Assistance Act of 1961, as amended, Israel was designated a "major non-NATO ally," affording it preferential treatment in bidding for U.S. defense contracts and access to expanded weapons systems at lower prices. Israel participates in NATO's Mediterranean Dialogue and its Istanbul Cooperative Initiative. On October 16, 2006, Israel signed an Individual Cooperation Program (ICP) with NATO, providing for cooperation in counter-terrorism, intelligence sharing, and disaster preparedness. On February 7, 2007, Amir Peretz became the first Israeli defense minister to visit NATO headquarters in Brussels. In June, as part of the ICP, Israel agreed to joint military training and exercises with NATO to enhance interoperability, potentially leading to Israeli participation in NATO-led missions. In December 2008, Israel and NATO agreed to strengthen the program.

Then NATO Secretary General Jaap de Hoop Scheffer said that the organization would consider sending (peace-keeping) troops to the Middle East only if a U.N. resolution authorized the mission, a stable and durable peace agreement is signed, and all parties involved make a request. He also stated that "NATO is a military organization aimed at defending the territory of the

⁹⁶ David S. Cloud and Jennifer Medina, "Gates Assures Israel on Plan to Sell Arms to Saudis," *New York Times*, April 20, 2007. For more on the arms sale, see CRS Report RL34322, *The Gulf Security Dialogue and Related Arms Sale Proposals*, by Christopher M. Blanchard and Richard F. Grimmett.

⁹⁷ Irene R. Prusher, "To Defense Against Iran Missiles, US and Israel Conduct Joint Exercises," *Christian Science Monitor*, October 29, 2009.

countries which are its members only,” and not in defending Israel against a “political” Iranian missile and nuclear threat.⁹⁸

In October 2009, NATO approved Israel’s participation in Operation Active Endeavor, a anti-terrorism naval operation in the Mediterranean to stop prevent terrorism and arms smuggling, particularly to stop attempts to transport weapons of mass destruction, and to improve the security of the shipping industry.⁹⁹ Israel will deploy a missile ship to join the force.

In September 2008, the Defense Security Cooperation Agency (DSCA) notified Congress of an intended sale of 1,000 GBU-39 “bunker-buster” bombs to Israel for \$77 million, of upgrades for the Patriot missile defense system at a cost of up to \$164 million, and of 28,000 M72A7 66-mm light anti-armor weapons, 60,000 training rockets, and other equipment valued at up to \$89 million. On September 30, 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. DSCA said that the sales are consistent with U.S. national interests “to assist Israel to develop and maintain a strong and ready self-defense capability.” It also said that they “would not affect the military balance in the region.”¹⁰⁰ Israel reportedly wants to equip the plane with its own electronic warfare and communications systems, and have the ability to independently maintain the plane in the event of a technical or structural problem.¹⁰¹ In November 2009, Reuters reported that the United States had offered to add Israel’s guidance systems and air-to-air missiles to the fighter, but not its electronic warfare system, provided that a deal is sealed by March 2010.¹⁰²

Also in September 2008, the United States supplied Israel with an An/TPY-2 forward-based X-band radar system and 120 U.S. personnel to enable Israel’s Arrow anti-ballistic missile to engage Iran’s Shihab-3 ballistic missile about halfway through an 11-minute flight to Israel.¹⁰³ The radar was set up at the Nevatim air base in the southern Negev and linked to the control system of the Israeli Home Front Command. Its installation is pursuant to an agreement reached in July, when the Defense Department agreed to increase Israel’s access to its Defense Support Program (DSP) satellites.¹⁰⁴

⁹⁸ Roni Sofer, “Israel Takes Part in NATO Intelligence Discussions,” Ynetnews.com, December 5, 2008.

⁹⁹ Amos Har’el and Baraq Ravid, “Israel Seeks to Join NATO Mediterranean Operation to Improve Regional Security,” *www. haaretz.com*, July 5, 2009.

¹⁰⁰ Yaakov Katz, “Israel Slated to Buy 1,000 ‘Bunker-Buster’ Bombs from US,” *Jerusalem Post*, September 15, 2008, Andrea Shalal-Esa, “U.S. Approves \$330 million in Arms Deals for Israel,” Reuters, September 9, 2008, Ashraf Khalil, “Israel Seeks to Purchase F-35 Fighter Jets,” *Los Angeles Times*, October 2, 2008.

¹⁰¹ Ya’aqov Katz, “Israel US-Deal on Purchase of F-35s said Close to Completion,” *Jerusalem Post*, June 24, 2009.

¹⁰² “US Pitches Unique F-35 Fighter Jet to Israel,” Reuters, November 25, 2009.

¹⁰³ More than 60 Members of Congress had urged President Bush to provide X-band radar in order to more than quintuple Israel’s warning time against an Iranian missile attack and allow an intercept by Arrow missiles outside of Israeli territory.

¹⁰⁴ Dan Williams, “U.S. to Help Israel with Missile Detection -Barak,” *Reuters*, July 29, 2008.

Other Issues

Military Sales

Israel is a major international arms merchant. India is the best customer for Israeli arms and Israel is the second largest arms supplier for India. India's first purchase was of early warning radars in 2004. In recent years, Israel has agreed to sell India weapons worth approximately \$2.6 billion. Highlights include the Israeli-built Phalcon an advanced, airborne early-warning system and reportedly the Barak-8 tactical defense system.

The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China. Israel reportedly is China's second major arms supplier, after Russia.¹⁰⁵ U.S. administrations believe that such sales are potentially harmful to the security of U.S. forces in Asia. In 2000, the United States persuaded Israel to cancel the sale of the Phalcon to China. In 2003, Israel's agreement to upgrade Harpy Killer unmanned aerial vehicles (UAVs) that it sold to China in 1999 angered the Pentagon. China tested the weapon over the Taiwan Strait in 2004. In reaction, the Department of Defense suspended the joint strategic dialogue, technological cooperation with the Israel Air Force on the F-35 Joint Strike Fighter (JSF) aircraft as well as several other programs, held up shipments of some military equipment, and refused to communicate with the Israeli Defense Ministry Director General, whom Pentagon officials believed had misled them about the Harpy deal.

On August 17, 2005, the U.S. DOD and the Israeli Ministry of Defense issued a joint press statement reporting that they had signed an understanding "designed to remedy problems of the past that seriously affected the technology security relationship and to restore confidence in the technology security area. In the coming months additional steps will be taken to restore confidence fully."¹⁰⁶ According to the Israeli newspaper *Haaretz*, Israel will continue to voluntarily adhere to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, without actually being a party to it. On November 4, in Washington, Defense Minister Mofaz announced that Israel would again participate in the F-35 JSF project and that the crisis in relations was over.

In March 2006, a new Defense Ministry Director General, Jacob Toren, said that an interagency process had begun approving marketing licenses for Israeli firms to sell selected dual-use items and services to China, primarily for the 2008 Olympic Games, on a case-by-case basis. On July 17, 2007, the Knesset passed a Law on Control of Defense Exports to establish a new authority in the Defense Ministry to oversee defense exports and involve the Foreign Ministry for the first time in the process, among other provisions. As a result, the United States agreed to establish a High Technology Forum to institutionalize a senior-level dialogue to address bilateral high technology trade, investment, and related issues.

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

¹⁰⁵ Ron Kampeas, "Israel-U.S. Dispute on Arms Sales to China Threatens to Snowball," *Jewish Telegraphic Agency*, June 8, 2005, citing a U.S.-China Economic and Security Review 2004 report.

¹⁰⁶ "U.S. Israel Agree to Consult on Future Israeli Weapons Sales -Nations Affirm Joint Commitment to Address Global Security Challenges," U.S. State Department Press Release, August 17, 2005.

In late 2008, the United States reportedly refused to approve an Israeli sale of 100 “Heron” unmanned aerial vehicles (UAV’s) which use U.S. parts to Russia and the Israeli Defense Exports Control Directorate (DECD) was said to have heightened scrutiny of all defense exports to Russia. In response to the report, the Defense Ministry said that it “does not comment on matters relating to defense exports.”¹⁰⁷

Espionage-Related Cases

In November 1985, Jonathan Pollard, a civilian U.S. naval intelligence employee, and his wife were charged with selling classified documents to Israel. Four Israeli officials also were indicted. The Israeli government claimed that it was a rogue operation. Pollard was sentenced to life in prison and his wife to two consecutive five-year terms. She was released in 1990, moved to Israel, and divorced Pollard. Israelis complain that Pollard received an excessively harsh sentence. Israel granted him citizenship in 1996 and acknowledged that Pollard had been its agent in 1998. Israeli officials repeatedly raise the Pollard case with U.S. counterparts, but no formal request for clemency is pending.¹⁰⁸ 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.¹⁰⁹

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.¹¹⁰

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

¹⁰⁷ Nadav Ze’evi, “Israel Holds Up Sale of UAV’s to Russia under US Pressure,” *Ma’ariv*, March 5, 2009, BBC Monitoring Middle East, March 6, 2009.

¹⁰⁸ See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, by Richard A. Best Jr. and Clyde R. Mark.

¹⁰⁹ Jonathan Finer, “Bush Trip Revives Israeli Push for Pardon of Spy,” *Washington Post*, January 15, 2008.

¹¹⁰ 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.

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 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.¹¹¹

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.”¹¹² 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.

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

¹¹¹ Barbara Ferguson, “Pentagon Analyst Says that he Spied on Israel,” McClatchy-Tribune Business News, July 30, 2009.

¹¹² “Yossi Melman, Shahar Ilan, and Barak Ravid,” Ezra: New Spy Case Won’t Harm U.S.-Israeli Ties,” *Haaretz*, April 23, 2008.

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. A final determination has not been made. Israel has denied violating agreements, saying that it had acted in self-defense. The U.N. has reported deaths and injuries in southern Lebanon from the weapons since the war ended.¹¹³

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."¹¹⁴ 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 a nuclear arsenal of 100 to 200 weapons, although some suggest a higher figure.¹¹⁵ Most reports appear to rely on 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 and possessed a stockpile of between 100 and 200 warheads.¹¹⁶ 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

¹¹³ David S. Cloud and Greg Myre, "Israel May Have Violated Arms Pact, U.S. Officials Say," *New York Times*, January 28, 2007.

¹¹⁴ Herb Keinon, "Israel Rejects Cluster Bomb Ban," *Jerusalem Post*, June 1, 2008.

¹¹⁵ Nuclear Threat Initiative, "Israel Nuclear Facilities," 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, March 22, 2001. National Public Radio reporter Eric Weiner used a range of 200 to 400 nuclear weapons, citing the CIA as his source.

¹¹⁶ 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.

reportedly reached an accord, whereby both sides agreed never to acknowledge Israel's nuclear arsenal in public.¹¹⁷

Thus, some Israelis became concerned when U.S. Assistant Secretary of State for Verification, Compliance, and Implementation Rose Gottemoeller told a preparatory committee for a 2010 U.N. Nuclear Non-Proliferation Treaty (NPT) Review Conference on May 6, 2009 that the United States seeks "universal adherence to the NPT," including by Israel. This followed an April 5th speech by President Obama in Prague, in which he declared a goal of reducing the number of nuclear weapons in the world to zero. According to its doctrine, however, Israel cannot sign the NPT because it would have to say that it does not have nuclear weapons.

There also is some concern in Israel that the Obama Administration might view Israel's nuclear program as subject to limits in a possible trade for Iran's foregoing uranium enrichment.¹¹⁸

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.¹¹⁹

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/>

¹¹⁷ Eli Lake, "Secret U.S.-Israel Nuclear Accord in Jeopardy," *Washington Times*, May 6, 2009.

¹¹⁸ Lake, *ibid.*

¹¹⁹ Office of the U.S. Trade Representative, *2009 Special 301 Report*, accessible via <http://www.ustr.gov>.

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

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

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

Figure I. Map of Israel



Source: Map Resources. Adapted by CRS.

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