

# CRS Report for Congress

## Israel: Background and Relations with the United States

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## Summary

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

Israel's foreign policy is focused largely on its region, Europe, and the United States. The government views Iran as an existential threat due to its nuclear ambitions and support for anti-Israel terrorists. Israel concluded peace treaties with Egypt in 1979 and Jordan in 1994 but never achieved accords with Syria and Lebanon. It negotiated a series of agreements with the Palestinians in the 1990s, but the Oslo peace process ended in 2000, with the Palestinian *intifadah* or uprising against Israeli occupation. Israeli and Palestinian officials accepted but never implemented the "Roadmap," the international framework for achieving a two-state solution to their conflict. Israel unilaterally disengaged from Gaza in summer 2005 and is constructing a security barrier in the West Bank to separate from the Palestinians. The Hamas victory in January 2006 Palestinian elections complicated Israeli-Palestinian relations. Then, in June, the Hamas military wing kidnaped an Israeli soldier, provoking an Israeli military offensive against the Gaza Strip. Israel resumed relations and talks with the Palestinian Authority (PA) in June 2007, after Palestinian President Mahmud Abbas dissolved the Hamas-led unity government in response to Hamas's military takeover of the Gaza Strip. Israel unilaterally withdrew from southern Lebanon in 2000; Hezbollah then occupied the area and continued to fire rockets from it into northern Israel. Hezbollah sparked a war when it kidnaped two Israel soldiers on July 12, 2006; a cease-fire took effect on August 14.

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 have differed on various issues, such as the fate of the Golan Heights, Jerusalem, and Israeli settlements. The Bush Administration and Congress supported Israel's 2006 military campaigns as acts of self-defense. The United States and Israel concluded a free-trade agreement in 1985, and the United States is Israel's largest trading partner. Israel is a prominent recipient of U.S. foreign aid. The two countries also have close security relations. Other issues in U.S.-Israeli relations include Israel's military sales to China, inadequate Israeli protection of U.S. intellectual property, and espionage-related cases. This report will be updated as developments warrant. See also CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, CRS Report RL33566, *Lebanon: The Israel-Hamas-Hezbollah Conflict*, and CRS Report RL33222, *U.S. Foreign Aid to Israel*.

# Contents

Most Recent Developments .....	1
Domestic Politics .....	1
Aid .....	1
Historical Overview of Israel .....	2
Government and Politics .....	2
Overview .....	2
Recent Political Developments .....	3
Current Government and Politics .....	5
Scandals .....	6
War and Aftermath .....	7
Winograd Commission .....	7
Political Repercussions .....	8
Economy .....	9
Overview .....	9
Current Issues .....	10
Foreign Policy .....	11
Middle East .....	11
Iran .....	11
Palestinian Authority .....	13
Egypt .....	14
Jordan .....	15
Syria .....	16
Lebanon .....	17
Iraq .....	18
Other .....	18
European Union .....	19
Relations with the United States .....	20
Overview .....	20
Issues .....	20
Peace Process .....	20
Settlements .....	21
Jerusalem .....	21
Syrian Talks .....	22
Democratization Policy .....	22
Trade and Investment .....	22
Aid .....	23
Security Cooperation .....	24
Other Issues .....	26
Military Sales .....	26
Espionage-Related Cases .....	27
Intellectual Property Protection .....	28
U.S. Interest Groups .....	28

## List of Figures

Figure 1. Map of Israel .....	30
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## List of Tables

Table 1. Parties in the Knesset .....	5
Table 2. Key Cabinet Officers .....	6
Table 3. Basic Facts .....	10

# Israel: Background and Relations with the United States

## Most Recent Developments

### Domestic Politics

On July 9, 2007, Russian-born billionaire Arkadi Gaydamak announced the creation of his Social Justice Party, with the aim of ousting the current government. He said that he would serve as party leader but not stand for the Knesset (parliament) or try to become prime minister, preferring to run for mayor of Jerusalem and “play a central role in Israel’s political life.” Some reports have suggested that Gaydamak would likely support Likud Party leader Benjamin Netanyahu in national elections. French authorities seek to arrest Mr. Gaydamak in connection with an arms-dealing case.<sup>1</sup>

On July 20, Israeli Prime Minister Olmert announced his intention to seek a second term as leader of his Kadima Party and thereby run as its candidate for prime minister in the next elections. On August 15, Netanyahu defeated Moshe Feiglin, a radical settler, in a Likud Party leadership primary.

### Aid

On August 13, U.S. Undersecretary of State for Political Affairs Nicholas Burns signed a memorandum of understanding with Israeli Foreign Ministry Director General Aharon Abramowitz to govern a new 10-year, \$30 billion aid package. Aid will increase from \$2.4 billion in Foreign Military Financing (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.

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<sup>1</sup> “Israeli Billionaire Launches Party ‘To Oust Olmert,’” *Daily Telegraph*, July 10, 2007.

## Historical Overview of Israel<sup>2</sup>

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

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

## Government and Politics

### Overview

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

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<sup>2</sup> For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York, Knopf, 1996.

Israel does not have a constitution. Instead, 11 Basic Laws lay down the rules of government and enumerate fundamental rights; two new Basic Laws are under consideration.<sup>3</sup> On February 2, 2006, the Knesset's Constitution, Law, and Justice Committee approved a draft constitution encompassing existing Basic Laws and a chapter of human rights and basic principles. However, the coalition agreement for the government that took power in April promised the ultra-orthodox Shas Party that Basic Laws would not be changed (i.e., transformed into a Constitution) without its approval. Israel has an independent judiciary, with a system of magistrates courts and district courts topped by a Supreme Court.

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

## Recent Political Developments

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

On November 21, Sharon said that he was no longer willing to deal with Likud rebels, resigned from the party, and founded a new "centrist" party, Kadima (Forward). He asked President Katzav to dissolve parliament and schedule an early election. Some 18 Likud MKs, including several ministers, the chairman of the Likud Central Committee, several Labor Knesset members, players in other political parties, and prominent personalities joined Kadima. Former Labor leader Peres supported Sharon. Kadima's platform or Action Plan stated that, in order to secure a Jewish majority in a democratic Jewish State of Israel, part of the Land of Israel (defined by some Israelis in the area between the Jordan River and the Mediterranean Sea) would have to be ceded. It affirmed a commitment to the Roadmap, the international framework for achieving a two-state solution to the Israeli-Palestinian conflict. Israel would keep settlement blocs, the security barrier, and a united Jerusalem, while demarcating permanent borders.<sup>4</sup>

Former Prime Minister and Finance Minister Benjamin Netanyahu won a Likud primary to replace Sharon as leader of Likud on December 19. Netanyahu called for "defensible walls" against Hamas and borders that would include the Jordan Valley,

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<sup>3</sup> For Basic Laws, see [<http://www.mfa.gov.il/mfa/government/law/basic%20laws/>].

<sup>4</sup> For Kadima's Action Plan, see [<http://kadimasharon.co.il/15-en/Kadima.aspx>].

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 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 and said that he would reallocate funds from settlements to the Negev, the Galilee, and Jerusalem. Although Olmert declared that he prefers negotiations, if they do not develop in a “reasonable time,” then he would proceed with what he called “convergence,” or merging of settlements east of the security barrier with large settlement blocs that will be west of the barrier.<sup>5</sup> Netanyahu charged that the unreciprocated, unilateral withdrawal from Gaza had rewarded terrorists and contributed to the Hamas win. He criticized Olmert’s plan as another unilateral concession that would endanger Israel. Peretz proposed that Israel continue a dialogue with moderate Palestinians, not Hamas.

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

The Shas campaign specifically aimed at restoring child allowances for the large families of its constituents. Although it opposes disengagements, the party’s spiritual leader has made rulings in the past that might allow Shas to accommodate Kadima’s plans for the territories. Yisrael Beiteinu (Israel Our Home), a secular party appealing to Russian-speakers, wants borders that exclude Israeli Arabs and their land and include settlements; it opposes unilateral disengagement and the Roadmap. The rightist National Union/National Religious Party (NU/NRP) drew support from settlers; it opposes all withdrawals from the West Bank, where it believes Jews have a biblical right to settle. Voters harmed by Netanyahu’s policies as well as young protest voters supported the new Pensioners’ Party (GIL), which did not elaborate its positions on other issues. The ultra-orthodox United Torah Judaism (UTJ) also seeks increased child allowances and military deferments for religious school students. United Arab List, Hadash, and Balad — Israeli Arab parties — are never part of a government.

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<sup>5</sup> During his May 2006 meeting with President Bush at the White House, Olmert used “realignment” and not “convergence” as the English translation for his plan.



## Current Government and Politics

On May 4, 2006, the Knesset approved a four-party coalition government of the Kadima Party, the Labor Party, the Pensioners' Party, and the Shas Party. It controlled 67 out of 120 seats in the Knesset, with 25 cabinet ministers, and Dalia Itzik of Kadima as the first woman Speaker of the Knesset. The government's guidelines call for shaping permanent borders for a democratic state with a Jewish majority.<sup>6</sup> They state that the government will strive to negotiate with the Palestinians, but it will act in the absence of negotiations. The guidelines also promise to narrow the social gap.<sup>7</sup> They state that the government will strive to negotiate with the Palestinians, but it will act in the absence of negotiations. The guidelines also promise to narrow the social gap. Shas joined the coalition without agreeing to evacuate West Bank settlements as specified in the guidelines and will decide on the issue when it is on the government agenda.

In October 2006, Olmert broadened the coalition in order to stabilize it in the aftermath of the war in Lebanon, bringing in Yisrael Beiteinu and increasing the government's strength in the Knesset to 78 out of 120 seats. Yisrael Beiteinu leader Avigdor Lieberman became Deputy Prime Minister and Minister for Strategic Threats, a previously non-existent post.

**Table 1. Parties in the Knesset**

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

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

<sup>6</sup> For the entire text of the government guidelines, see [<http://www.mfa.gov.il/MFA/Government/Current+Government+of+Israel/Basic%20Guidelines%20of%20the%2031st%20Government%20of%20Israel>].

<sup>7</sup> For the entire text of the government guidelines, see [<http://www.mfa.gov.il/MFA/Government/Current+Government+of+Israel/Basic%20Guidelines%20of%20the%2031st%20Government%20of%20Israel>].

## Scandals

A series of scandals has created a sense that the government is operating under a cloud. In October 2006, police recommended that the Attorney General indict President Moshe Katzav on charges of rape, sexual harassment, and obstruction of justice and Attorney General Menachem Mazuz later announced that he would. Prime Minister Olmert, ministers, and Members of the Knesset called on Katzav to resign. Instead, the President denied the charges and requested that he be declared temporarily incapacitated for three months or until after presenting his case in a hearing with the Attorney General before charges are filed. Katzav's leave request was approved and

later extended. Speaker of the Knesset Dalia Itzik became Acting President. On June 30, 2007, two weeks before the expiration of his term, Katzav submitted his resignation under the terms of a controversial plea bargain providing that he will be indicted for lesser offenses, receive a suspended sentence, and pay damages. Public watchdog groups have appealed the plea agreement to the Supreme Court.

Prime Minister Olmert also is involved in several scandals. The State Comptroller has accused him of making illegal appointments and procuring investment opportunities for an associate while he was Minister of Trade and Industry and has turned the cases over to the Attorney General. The Comptroller also has called for a criminal investigation of Olmert's role as Finance Minister in trying to steer the sale of a controlling interest in a government-controlled bank toward a close personal associate. Olmert has denied all allegations.

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

Finally, police are investigating former Finance Minister Abraham Hirschson on suspicion of embezzling funds from a nonprofit organization to finance political

**Table 2. Key Cabinet Officers**

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

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

activity for the Likud Party, to which he had belonged prior to joining Kadima. On April 22, Hirschson stepped down as Minister pending completion of the investigation; he resigned on July 2.

## War and Aftermath

Israel engaged in a two-front war against U.S.-designated terrorist groups in response to the June 25, 2006, kidnaping of an Israeli soldier by Hamas and others near Gaza and the July 12 abduction of two Israeli soldiers from northern Israel by Hezbollah.<sup>8</sup> The Israeli public, press, and parliament supported the war in Lebanon as a legitimate response to an attack on sovereign Israeli territory and a long overdue reaction to Hezbollah rocket attacks on northern Israel, but they questioned its prosecution.

Israelis have been debating the war since it was concluded. Critics note that the kidnaped soldiers were not rescued and that Hezbollah is rearming and has been strengthened politically. The government claims success in forcing Hezbollah from the border, in degrading its arms, and in pressuring the Lebanese government, aided by international forces, to assert itself in south Lebanon.

The fallout from the war included the resignation of Chief of Staff Lt. Gen. Dan Halutz on January 17, 2007. Retired Maj. Gen. Gabi Askenazi, Director General of the Defense Ministry and a former infantry commander, was named to succeed Halutz and promoted to lieutenant general.

## Winograd Commission

Amid post-war recriminations, Prime Minister Olmert rejected demands for an independent state commission of inquiry, such as were headed by Supreme Court justices after past controversial conflicts. Eventually, however, he named retired Judge Eliyahu Winograd to head a governmental commission, the “Committee for the Examination of the Events of the Lebanon Campaign 2006” to look into the preparation and conduct of the war and gave it authority equal to that of an independent commission. The committee began its work in November 2006.

On April 30, 2007, the Winograd Commission presented its interim findings, assigning personal blame for “failings” to Prime Minister Olmert, Defense Minister Peretz, and Chief of Staff Halutz.<sup>9</sup> It criticized Olmert for “hastily” deciding to go to war without a comprehensive plan, close study, or systematic consultation with others, especially outside the Israeli Defense Forces (IDF). It accused him of declaring unclear, over-ambitious, and infeasible goals for the campaign and for

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<sup>8</sup> For additional coverage of these developments, see CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz and CRS Report RL33566, *Lebanon: the Israel-Hamas-Hezbollah Conflict*, coordinated by Jeremy M. Sharp.

<sup>9</sup> 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].

failing to adapt them once their deficiencies were realized. The Report concluded that these accusations add up to a “serious failure” in exercising “judgment, responsibility, and prudence.” It faulted Peretz for making decisions without systematic consultations despite his lack of knowledge and experience in military matters, emphasizing his lack of strategic oversight of the IDF. It concluded, “his serving as Minister of Defense during the war impaired Israel’s ability to respond well to its challenges.” The Commission severely criticized former Chief of Staff Dan Halutz, who had already resigned. It said that he and the army were not prepared for the abduction of the soldiers, responded “impulsively,” and misled and failed to inform the political echelon. In sum, the Report accused Halutz of “flaws in professionalism, responsibility, and judgment.” The Commission recommended strengthening staff work to improve the quality of decision-making, full incorporation of the Ministry of Foreign Affairs in security decisions, and improvement in the functioning of the National Security Council, among other steps. The final Commission report has been delayed in order to allow those who might be harmed by its conclusions to respond.

## Political Repercussions

The political effects of the Winograd Commission’s findings on Prime Minister Olmert have been minimal thus far. Most (26 out of 29) Kadima MKs supported him. Foreign Minister Tzipi Livni called for Olmert’s resignation, but did not appear to work to gain the support of others in the party. Afterwards, she remained in the government, with her image somewhat tarnished by her unsuccessful action. Shas, Yisrael Beitenu, and the Pensioners’ Party supported the Prime Minister’s refusal to resign and were said to have rejected the idea of remaining in a Kadima-led government if it were led by Livni for reasons of ideology and gender. Yisrael Beitenu views her as too supportive of a peace process and Shas would not follow a female head of government. Olmert has not been challenged as leader of his Kadima Party and easily defeated three no-confidence votes against his government in the Knesset.

Peretz was defeated in the first round of the Labor Party leadership primary on May 28, 2007. In the second round, on June 12, former Prime Minister and former IDF Chief of Staff Ehud Barak bested former Shin Bet (Israeli Counterintelligence and Internal Security Service) head Ami Ayalon to become party leader. Barak then took over as Defense Minister, saying that he would serve until an election or until someone other than Olmert forms a new government. Barak is not a Member of the Knesset (MK) and must be elected to parliament in order to become Prime Minister. He opposes withdrawing Labor from the government and forcing early elections, tacitly recognizing that polls show Benjamin Netanyahu and his Likud Party likely to place first in an election.<sup>10</sup> Nonetheless, Barak has promised to end the coalition partnership with Kadima after the final Winograd Commission report is published. Some have suggested that since becoming Defense Minister, Barak is moving right, toward most Israeli voters. He has asserted that Israeli forces should not leave the

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<sup>10</sup> Ha’aretz/Dialog Poll conducted August 4, 2007 showed Likud under Netanyahu in the lead if an election were held that day. Yosi Verter, “Bloc Heads,” *Ha’aretz*, August 10, 2007, Open Source Center Document GMP20070810739005.

West Bank for at least five years or until the defense establishment has developed a way to protect Israeli citizens from missiles of all capabilities. He also said that it is not possible to reach an agreement on the main disputed issues of Jerusalem, border, and refugees with Palestinian President Mahmud Abbas and Prime Minister Salam Fayyad, whom he maintains cannot implement an accord anyway.<sup>11</sup> However, Barak has also said that Abbas and Fayyad must be bolstered and that a U.S.-planned regional meeting this fall is “very important.”

At this time, Members of the Knesset might not vote no confidence in the government when many would lose their seats in an early vote. The government could be reconfigured without elections if members of Kadima force the Prime Minister to resign, if Labor withdraws and a smaller party joins the coalition, or if MKs or parties shift their loyalties. Defectors from Kadima can legally join a new coalition only if at least one third of the party’s MKs, or ten, break away.

On June 13, the Knesset elected Kadima candidate 83-year-old Shimon Peres to be President of Israel. On July 4, Olmert made changes in his cabinet, naming Haim Ramon Vice Premier to replace Peres, Roni Bar-On Finance Minister, and Meir Shitrit Interior Minister, among other appointments. Ramon, who had stepped down as Justice Minister when indicted in now-resolved criminal case (See Scandals, above), and Bar-On are close associates of the Prime Minister.

## 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. An advanced high-tech sector includes aviation, communications, computer-aided design and manufactures, medical electronics, and fiber optics. Israel greatly depends on foreign aid and loans and contributions from the Jewish diaspora. After economic declines in 2001 and 2002 due to the effects of the Palestinian *intifadah* (uprising) on tourism and to the bursting of the global high-tech bubble, Israel’s economy has recovered. For 2006, most economic indicators were positive: inflation low, employment and wages rising, and the standard of living rising. Under Former Finance Minister Netanyahu, the government attempted to liberalize the economy by controlling government spending, reducing taxes, and resuming privatization of state enterprises. The chronic budget deficit decreased, while the country’s international credit rating was raised, enabling a drop in interest rates. However, Netanyahu’s critics suggested that cuts in social spending widened the national income gap and increased the underclass. According to Israel’s National Insurance Institute, 20% of all Israelis and 30% of Israeli children live below the poverty line.

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<sup>11</sup> Shim’on Schiffer, “Barak: No One to Talk To,” *Yedi’ot Aharonot*, August 10, 2007, Open Source Center Document GMP20070810738009.

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%. If a budget for the next year is not approved by December 31, the government may operate until March 31 under the previous year's budget. If a budget is not approved by March 31, the government falls (unless the Knesset has already been dissolved and an election is underway, as in 2006).

Olmert vowed not to increase the deficit while lessening the social gap. The coalition agreement called for raising the minimum wage to \$1,000 a month by the end of the Knesset session, canceling a 1.5% pension cut of the Netanyahu era, guaranteeing a pension for all workers, and increasing spending on health care, child allowances, daycare, and other socioeconomic programs.

**Table 3. Basic Facts**

Population	7,150,000 (2007 est.)
Population Growth Rate	1.18% (2006 est.)
Ethnic Groups	— Jewish 80% (2007 est.) — non-Jewish (mostly Arab) 20% (2007 est.)*
GDP Growth Rate	5% (2006 est.)
GDP Per Capita	\$26,200 (2006 est.)
Inflation Rate	1.9% (2006 est.)
Unemployment Rate	8.5% (2006 est.)
Ratio of debt to GDP	91% (2006 est.)
Foreign Debt	\$81.98 billion (June 2006 est.)
Imports	crude oil, grains, raw materials, military equipment
Exports	cut diamonds, high-technology equipment, fruits and vegetables
Main Trading Partners	United States, Belgium, Germany, United Kingdom

**Sources:** CIA, *The World Factbook*, January 2007; and the Israeli government.

\*Within 1967 borders.

## Current Issues

Because the 2006 budget was not approved before the dissolution of the previous parliament, spending remained at 2005 levels from January through May and a budget surplus accrued due to the low expenditures and higher than expected tax revenues. The surplus was expected to enable the new government to spend more on social programs. Then Finance Minister Hirschson proposed a budget cut of one billion New Israeli Shekels (NIS) (U.S.\$224 million) for 2006, of which NIS 510 million (U.S.\$114 million) was to be taken from defense and none from social programs. The Knesset passed the budget on June 7, 2006.

In the end, the defense budget was not cut due to military expenditures for the war in Lebanon. On August 31, the Knesset Finance Committee passed a 6% across-the-board cut (totaling about \$450 million) for all ministries, except defense and

social welfare. Hirschson estimated the cost of the war to be about \$3.5 billion due economic losses resulting from the closure of industrial plants in northern Israel, inability to work on agriculture in that region, attendant business, property, and tax losses, and the loss of tourism revenues. In the first half of 2006, the economy grew at a 5.9% rate; second half growth with the war and its aftermath fell to 2.9%. At the year's end, government economists were very pleased with the economy's performance, which resulted in a balance of payments surplus of \$3.9 billion and a cut in the government deficit to 1.2%, half of the previous year.<sup>12</sup>

On January 29, 2007, Hirschson presented plans to decrease poverty and correct the mal-distribution of wealth in the country during the period from 2007 to 2010. They include mandatory pensions, increased taxes on employee vehicles, negative income tax for low-income earners, and lower-middle-class income taxes. Prime Minister Olmert followed suit on April 18, by issuing a socioeconomic agenda for 2008-2010 to reduce poverty and encourage growth and employment.

The cabinet approved the 2008 budget on August 12.

## Foreign Policy

### Middle East

**Iran.** Israeli officials state that Iran will pose an existential threat to Israel if it achieves nuclear capability. Ayatollah Khomeini, founder of Iran's Islamic revolution, decreed that the elimination of Israel is a religious duty. President Mahmud Ahmadinejad quoted Khomeini when he called for Israel to be "wiped off the map" and has described the Holocaust as a "myth" used as a pretext to create an "artificial Zionist regime." He repeatedly makes virulently anti-Israel statements. The Iranian Shahab-3 missile is capable of delivering a warhead to Israel. Israeli officials have called on the international community to thwart Iran's nuclear ambitions in order to avert the need for Israel to act as it did against Iraq's reactor at Osirak in 1981. On June 20, 2007, the House approved H.Con.Res. 21, calling on the U.N. Security Council to charge Ahmadinejad with violating the Convention on the Prevention of Genocide because of his calls for the destruction of the State of Israel. It has been referred to the Senate Committee on Foreign Relations.

When U.S. Vice President Dick Cheney warned in 2005 that Israel might act preemptively against Iran, Israel's then Defense Minister Shaul Mofaz countered, urging a pre-emptive U.S. strike. Because Israel is presumed to have nuclear weapons, the prospect of a counterattack is seen by many as an effective deterrent against an Iranian attack. On January 17, 2006, then Acting Prime Minister Olmert said, "Under no circumstances ... will Israel permit anyone who harbors evil intentions against us to possess destructive weapons that can threaten our existence." He added, "Israel acted, and will continue to act, in cooperation and consultation with ... international

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<sup>12</sup> Sharon Wrobel, "2006 GDP Growth Tops Forecasts," *Jerusalem Post*, January 1, 2007, citing the Israeli Central Bureau of Statistics' preliminary figures.

elements.”<sup>13</sup> 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.”<sup>14</sup> On November 13, Olmert told the U.S. “Today Show” that he would find acceptable any compromise that President Bush does to stop Iran from acquiring nuclear capabilities.

Israeli estimates of when Iran might have a nuclear weapon generally project a 2008-2010 time frame. U.S. assessments predict a 2010-2015 time frame. Israelis believe that they must prepare for a possibly more imminent threat. On December 17, 2006, Mossad (Institute for Intelligence and Special Operations) Chief Meir Dagan told a Knesset committee that if there were no sanctions on Iran and no technological delays, then Iran would have 25 kilograms of enriched uranium by 2008 and nuclear warheads by 2009-2010. In January 2007, Maj. Gen. Amos Yadlin, head of military intelligence, also said that, barring delays, Iran would have a nuclear bomb in two and a half years. If it could reduce the time needed to procure fissile material, Iran might even have one before mid-2009.<sup>15</sup>

On January 24, 2007, Olmert declared that the Iranian threat preoccupies him “incessantly,” but stated his continuing preference for a diplomatic solution and observed that Iran is “very vulnerable” to international pressure. He added, “Although the Iranian threat is grave, Israel does not face an imminent danger of a nuclear attack” and said that there is still time to frustrate Iran’s intentions to become a nuclear power.<sup>16</sup> 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. On April 22, Olmert said that he believed that international diplomatic pressure will keep Teheran from attaining nuclear weapons and that a military confrontation will not be necessary. Other Israeli officials have echoed that theme. They also have expressed concern about the ramifications of a military strike against Iran on regional stability, possibly provoking retaliation by Syria and Hezbollah as well as Teheran.

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

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<sup>13</sup> “PM Olmert, President Qatzav Discuss Iran, Peace Process During News Conference,” Open Source Center Document FEA20060117017385, January 17, 2006.

<sup>14</sup> “23 Apr Cabinet Session; Daily Says Olmert Ready for ‘Swift’ Convergence,” Jerusalem Government Press Office, Open Source Center, Document GMP20060424621005, April 23, 2006.

<sup>15</sup> *Ha’aretz* report, May 24, 2006, Sheera Claire Frenkel, “Dagan: Syria more Willing Now than Ever to Attack Israel,” *Jerusalem Post*, December 18, 2006. and “Israeli MI Chief: Iran to have Bomb in 2.5 Years,” Voice of Israel, January 9, 2007, Open Source Center, Document GMP20070109739002.

<sup>16</sup> Verbatim text of speech to the Herzliyya Conference, reported by IDF Radio, BBC Monitoring Middle East, January 25, 2007.



the Popular Front for the Liberation of Palestine-General Command — Palestinian terrorist groups seeking to obstruct the peace process and destroy Israel.

Prime Minister Olmert has called upon moderate Sunni leaders to form a coalition against Iran, Hezbollah, and other regional extremists. At least publicly, 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.

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

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

The Israeli government accepted the Roadmap, the framework for a peace process leading to a two-state solution developed by the United States, European Union, U.N., and Russia, reluctantly and with many conditions. Sharon contended that the Roadmap requires that the PA first fight terror, by which he meant disarm militants and dismantle their infrastructure. (It also required Israel to cease settlement activity in the first phase.) Abbas preferred to include terrorist groups such as Hamas in the political system and refused to disarm them prior to January 2006 parliamentary elections. Hamas's victory in those elections created policy dilemmas for 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 officially refused to negotiate with Hamas for the return of the Israeli soldier kidnaped on June 25, 2006. After the kidnaping, in summer 2006, Israel

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

On March 18, 2007, the Israeli cabinet voted to shun the new Palestinian unity government, a coalition of Hamas, Fatah, and independents, until it met 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 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. On July 1, Israel transferred to the PA \$118 million of the tax revenues it had withheld since Hamas came to power in 2006, resumed security cooperation with the PA, and is considering the release of 250 Fatah-affiliated prisoners. The remainder of the revenues or an additional \$600 million will be transferred within six months. Olmert and Abbas have been meeting somewhat regularly in summer 2007, and are working on an “agreement” on principles to present to a U.S.-planned regional conference to be held in November in Washington in support of negotiations for creation of a Palestinian state.

**Egypt.**<sup>17</sup> After fighting four wars in as many decades, Israel and Egypt signed a peace treaty in 1979. In 1982, Israel withdrew from the Sinai Peninsula, which it had taken in the 1967 war. Egypt and Israel established diplomatic relations, although Egypt withdrew its ambassador during the four years of the second *intifadah*, 2001-2005, because it objected to Israel’s “excessive” use of force against the Palestinians. Some Israelis refer to their ties with Egypt as a “cold peace” because full normalization of relations, such as enhanced trade, bilateral tourism, and educational exchanges, has not materialized. Egyptian President Hosni Mubarak has visited Israel only once — for the funeral of Israeli Prime Minister Yitzhak Rabin. Outreach is often one way, from Israel to Egypt. Egyptians say that they are reluctant to engage because of Israel’s continuing occupation of Arab lands. Israelis are upset by some Egyptian media and religious figures’ anti-Israeli and occasionally anti-Semitic rhetoric.

Nonetheless, the Egyptian government often plays a constructive role in the Arab-Israeli peace process, hosting meetings and acting as a liaison. After the January 2006 Hamas election victory in the Palestinian territories, Egyptian officials unsuccessfully urged the group to accept the 2002 Arab Peace Initiative that offers Israel recognition within its 1967 borders. Egyptian intelligence chief Omar Sulayman tried to gain the release of an Israeli soldier kidnaped by Hamas and others in June 2006 in exchange for Palestinian prisoners. Egypt supports President Mahmud Abbas generally in order to ensure that there is a Palestinian partner for peace negotiations with Israel and is training the Palestinian Presidential Guard. After Hamas took over the Gaza Strip, 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.

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<sup>17</sup> See also, CRS Report RL33003, *Egypt: Background and U.S. Relations*, by Jeremy M. Sharp.

Egypt deployed 750 border guards to secure the Rafah crossing after Israel's disengagement from Gaza. Israel refused an Egyptian request to deploy military border guards, instead of police, for greater control of smuggling along the entire border in Sinai, which some Israelis argue would require a change in the military appendix of the 1979 peace treaty. Israeli officials have repeatedly expressed frustration with Egypt's failure to control arms-smuggling into Gaza. However, in November 2006, Prime Minister Olmert said that Israel wanted to make the border agreement more effective and not to change it.

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. On June 30, 2005, Israel signed a memorandum of understanding to buy 1.7 billion cubic feet of Egyptian natural gas for an estimated U.S.\$2.5 billion over 15 years, fulfilling a commitment made in an addendum to the 1979 peace treaty. The deal includes cooperation in construction of the infrastructure needed and may expand to other energy areas. An initial agreement for the deal was signed on December 11, 2006. In April 2007, Israel's National Planning and Building Council approved a plan for a gas pipeline; work on the Israeli section is expected to be completed by the end of 2007.

**Jordan.**<sup>18</sup> Israel and Jordan signed a peace treaty in October 1994 and exchanged ambassadors, although Jordan did not have an ambassador in Israel during most of the *intifadah*. Relations have developed with trade, cultural exchanges, and water-sharing agreements. Since 1997, Jordan and Israel have collaborated in creating 13 qualified industrial zones (QIZs) to export jointly produced goods to the United States duty-free under the U.S.-Israel Free Trade Agreement (FTA), although Jordanian companies are now said to prefer arrangements under the U.S.-Jordan FTA over the QIZ. Normalization of ties is not popular with the Jordanian people, over half of whom are of Palestinian origin, although King Abdullah II has attempted to control media and organizations opposed to normalization.

Believing that a two-state solution to the Israeli-Palestinian conflict would contribute to regional stability, the King is very supportive of the peace process, wants the Roadmap to be implemented, and has hosted meetings between Israeli and Palestinian leaders. In January 2007, Jordan joined Egypt, Saudi Arabia, and Palestinian President Abbas in advocating an agreement on the "end game" before following the Roadmap. The King has opposed to 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.

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<sup>18</sup> See also CRS Report RL33546, *Jordan: U.S. Relations and Bilateral Issues*, by Alfred Prados and Jeremy M. Sharp; and CRS Report RS22002, *Qualifying Industrial Zones in Jordan: A Model for Promoting Peace and Development in the Middle East?* by Mary Jane Bolle, et al.

After Hamas took over Gaza in June 2007, speculation revived concerning a possible union between Jordan and the West Bank, which some in Israel have long suggested as the ideal solution. On July 1, King Abdullah firmly rejected the idea, “I say clearly that the idea of confederation or federation, or what is called administrative responsibility, is a conspiracy against the Palestinian cause, and Jordan will not involve itself in it.... The Jordanians refuse any settlement of the Palestinian issue at their expense.”<sup>19</sup> In 1988, the King’s father had disengaged Jordan from the West Bank and accepted the Palestine Liberation Organization (PLO) as the sole body responsible for Palestinian areas.

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

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

Syria hosts Hamas political bureau chief Khalid Mish’al and supplies Hezbollah with Syrian and Iranian weapons. After the June 25, 2006, Palestinian attack on Israeli forces and kidnaping of an Israeli soldier, Israeli officials specifically requested the United States to pressure President Asad to expel Mish’al, whom they believed was responsible for the operation. Syria refused. When Hezbollah abducted two Israeli soldiers from northern Israel on July 12, sparking an Israeli-Hezbollah war, some rightwing Israeli politicians demanded that it be expanded to include Syria. However, the government and military did want to open a third front. U.S. officials demanded that Syria exert its influence on Hezbollah to end the conflict; Syrian officials unsuccessfully sought a broader resolution that would include a revival of a peace process to produce the return of the Golan Heights.

In September 2006, Israeli 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.”<sup>20</sup> He also indicated that he preferred not to differ with the

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<sup>19</sup> July 1 interview with Al Ghad newspaper, cited in Hassan M. Fattah, “Growing Talk of Jordanian Role in Palestinian Affairs,” *New York Times*, July 10, 2007.

<sup>20</sup> “Olmert Tells Israeli Paper: Golan ‘An Integral Part of the State of Israel,’” *Yedi’ot* (continued...)

Bush Administration's policy of not dealing with Syria due to its support for terrorists, destabilizing of Lebanon, and failure to control infiltration into Iraq. In 2007, Israeli intelligence agencies, foreign ministry, and others have debated whether Syria wants peace or just a peace process, and whether it would start a war to break the status quo. Prime Minister Olmert appears to support the conclusion that Asad wants negotiations only to end his international isolation. In summer 2007, amid speculation that miscalculation could produce an unwanted war, Israeli and Syrian leaders have exchanged messages stating their lack of interest in a confrontation and desire for peace.

**Lebanon.**<sup>21</sup> Israeli forces invaded Lebanon in 1982 to prevent Palestinian attacks on northern Israel. The forces gradually withdrew to a self-declared nine-mile "security zone," north of the Israeli border. Peace talks in the 1990's failed to produce a peace treaty, mainly because of Syria's insistence that it reach an accord with Israel first. Israel unilaterally withdrew from southern Lebanon on May 25, 2000. Lebanon insists that the Israeli withdrawal is incomplete because of the continuing presence of Israeli forces in the Shib'a Farms area where the borders of Lebanon, Syria, and Israel meet. The U.N. determined, however, that Israel's withdrawal from Lebanon was complete and treats the Shib'a Farms as part of Syria's Golan Heights occupied by Israel. Syria verbally recognizes that Shib'a is part of Lebanon, but will not demarcate the border officially as long the Israeli occupation continues. Hezbollah took control of the former "security zone" after Israeli forces left and attacked Israeli forces in Shib'a and northern Israeli communities. The Lebanese government considers Hezbollah to be a legitimate resistance group and a political party represented in parliament. Israel views it as a terrorist group.

Hezbollah's kidnaping of two Israeli soldiers on July 12, 2006, provoked Israel to launch a war against Hezbollah in Lebanon. On July 17, Prime Minister Olmert declared that military operations would end with the return of the kidnaped soldiers, the end to Hezbollah rocket attacks into northern Israel, and the deployment of the Lebanese army along the Israeli-Lebanese border to replace Hezbollah units. Hezbollah demanded a prisoner swap, namely, that the Israeli soldiers be exchanged for Lebanese and other Arab prisoners in Israel. The war ended with a cessation of hostilities on August 14. Israeli forces withdrew as their positions were assumed by the Lebanese army and an enlarged U.N. Interim Forces in Lebanon (UNIFIL). Hezbollah has maintained the cease-fire, but has not released the abducted soldiers.<sup>22</sup> The U.N. reports that Hezbollah is rearming via smuggling across the Lebanese-Syrian border.

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<sup>20</sup> (...continued)

*Aharonot*, September 26, 2006, citing a *Mishpaha* newspaper interview, Open Source Center Document GMP20060926746002.

<sup>21</sup> See also CRS Report RL33509, *Lebanon*; and CRS Report RL31078, *The Shib'a Farms Dispute and Its Implications*, both by Alfred Prados.

<sup>22</sup> Some have suggested that the soldiers might not be alive due to the nature of the operation in which the soldiers were captured, the probable injuries they sustained, and the lack of readily available medical assistance. Moreover, there has been no discussion of a prisoner exchange comparable to that under discussion for the soldier kidnaped by Hamas earlier.

**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.<sup>23</sup> Israel’s Ambassador to the United States has expressed hope that withdrawal from Iraq would be done “in such a way that does not strengthen Iran and Al Qaeda or boost organizations such as Hezbollah and Hamas, so that we don’t face a new eastern front from Iran to Kfar Saba.”<sup>24</sup> The late Israeli commentator Ze’ev Schiff suggested that if Arabs interpret America’s withdrawal as a sign of defeat, then Israel could look forward to a radical Arab shift that will strengthen extremists.<sup>25</sup> 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.<sup>26</sup> Some of these sentiments may have influenced H.Rept. 110-060, March 20, 2007, to accompany H.R. 1591, Emergency Supplemental Appropriations for FY2007, which states, “The fight in Iraq is also critical to the future of Israel. A failure in Iraq will further destabilize the region, posing a direct threat to Israel. We must not let that occur to our friend and ally.”

**Other.** Aside from Egypt and Jordan, Israel has diplomatic relations with the majority-Muslim countries of Mauritania and Turkey and has had interest or trade offices in Morocco, Tunisia, Oman, and Qatar. The latter four suspended relations with Israel during the Palestinian *intifadah*. 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 have asserted that they will not recognize Israel until an independent Palestinian state is established. On September 14, Pakistan’s President Pervez Musharraf shook Prime Minister Sharon’s hand in a “chance” meeting at the U.N. General Assembly opening session. In October, Pakistan accepted Israeli humanitarian aid after a devastating earthquake. In April 2007, Musharraf offered to mediate between Israel and the Palestinians and said that he would be willing to visit Israel to help bring peace to the Middle East. Prime Minister Olmert declined the mediation offer, preferring to deal directly with Palestinian President Abbas.

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

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<sup>23</sup> For text of speech, see [<http://www.pmo.gov.il/PMOEng/Communication/PMSpeaks/speechaipac130307.htm>].

<sup>24</sup> Interview by Tal Schneider, *Ma’ariv*, April 27, 2007, Open Source Center Document GMP20070427754006.

<sup>25</sup> Ze’ev Schiff, “US Withdrawal in Iraq to Strengthen Arab Extremists Around Israel,” *Ha’aretz*, April 20, 2007.

<sup>26</sup> Hussein Agha, “The Last Thing the Middle East’s Main Players Want is US Troops to Leave Iraq...,” *The Guardian*, April 25, 2007.

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

In September 2006, Foreign Minister Livni was said to have met at the U.N. with 10 Arab and Muslim foreign ministers, including the Omani foreign minister. On January 30, 2007, Vice Premier Shimon Peres met the Emir of Qatar in Doha. Speaker Itzik was invited to the Inter-Parliamentary Union meeting in Indonesia in May 2007 but did not attend because of security required due to her position as Acting President.

Israel also has developed good relations with the predominantly Muslim former Soviet republic of Azerbaijan, which supplies about one-sixth of Israel’s oil needs, as well as with Tajikistan, which seeks to tap Israel’s technological expertise.

## European Union

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

Israel has been cool to EU overtures because it views many Europeans as biased in favor of the Palestinians and hears some Europeans increasingly question the legitimacy of the State of Israel. Some Israelis contend that the basis of such views is an underlying European anti-Semitism. Nonetheless, in November 2005, Israel agreed to allow the EU to maintain a Border Assistance Mission (EU-BAM) to monitor the reopened Rafah crossing between the Gaza Strip and Egypt. In November 2006, the 90-man EU mission was extended for another six months despite European complaints about Israeli restrictions and frequent closures of the crossing. The mission suspended operations on June 13, 2007, as Hamas took over Gaza. After the war in Lebanon, Israel also urged and welcomed the strong participation of European countries in the U.N. peacekeeping force there.

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

accords. The EU developed, at the Quartet's request, a temporary international mechanism to aid the Palestinian people directly while bypassing the government.

The EU does not include Hezbollah on its list of terrorist organizations as Israel demands. Israel has protested meetings between European ambassadors and Hezbollah ministers in the Lebanese cabinet.

Israel participates in the EU's Euro-Mediterranean Partnership Initiative, otherwise known as the Barcelona Process, and in the European Neighborhood Policy (ENP). And EU countries combined are Israel's second trading partner, but the EU bans imports from Israeli settlements in the occupied territories.<sup>27</sup>

## Relations with the United States

### Overview

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

### Issues

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

In June 2002, President George W. Bush outlined his vision of a democratic Palestine to be created alongside Israel in a three-year process.<sup>28</sup> U.S., European Union, Russian, and U.N. representatives built on this vision to develop the international Roadmap to a Permanent Two-State Solution to the Israeli Palestinian

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<sup>27</sup> See CRS Report RL31956, *European Views and Policies Toward the Middle East*, by Kristin Archick.

<sup>28</sup> See [<http://www.whitehouse.gov/news/releases/2002/06/20020624-3.html>] for text of President's speech.



Conflict. The Administration remains committed to the Roadmap process despite the parties' failure to implement it.<sup>29</sup>

Secretary of State Condoleezza Rice has not named a Special Middle East Envoy and said that she would not get involved in direct Israeli-Palestinian negotiations of issues and preferred to have the Israelis and Palestinians work together. H.Res. 143, introduced on April 12, 2007, urges the President to appoint a Special Envoy for Middle East Peace. S.Res. 224, introduced on June 7, has a similar provision.

After the Administration supported Israel's disengagement from Gaza mainly as a way to return to the Roadmap, the Secretary personally mediated an accord to secure the reopening of the Rafah crossing between Gaza and Egypt in November 2005. Some Israelis criticized Rice's insistence that the Palestinian elections proceed in January 2006, with Hamas participating, which produced a Hamas-led government. The Administration later agreed with Israel's preconditions for dealing with that government. Rice has indicated that she intends to get more actively involved and has traveled to the region several times in order to get the Israelis and Palestinians to focus on what she describes as a "political horizon" for the Palestinians in order to accelerate the Roadmap.

President Bush has called for an "international meeting this fall of representatives from nations that support a two-state solution, reject violence, recognize Israel's right to exist, and commit to all previous agreements between the parties." The meeting will review progress toward building Palestinian institutions and look for ways to support further reform. Participants also will provide support for the parties in their bilateral negotiations on a Palestinian state. Secretary Rice will chair the meeting. The meeting reportedly will take place in Washington in November.<sup>30</sup>

**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 contiguous Palestinian state. On April 14, 2004, however President Bush noted the need to take into account changed "realities on the ground, including already existing major Israeli population centers" (i.e., settlements), asserting "it is unrealistic to expect that the outcome of final status negotiations will be full and complete return to the armistice lines of 1949."<sup>31</sup> He later emphasized that it was a subject for negotiations between the parties.

**Jerusalem.** Since taking East Jerusalem in the 1967 war, Israel has maintained that Jerusalem is its indivisible, eternal capital. Few countries agree with this position. The U.N.'s 1947 partition plan called for the internationalization of Jerusalem, while the Declaration of Principles signed by Israel and the Palestine Liberation Organization in September 1993 says that it is a subject for permanent status negotiations. U.S. Administrations have recognized that Jerusalem's status is

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<sup>29</sup> See [<http://www.state.gov/r/pa/prs/ps/2003/20062.htm>]for text of Roadmap.

<sup>30</sup> For President's speech, see [<http://www.whitehouse.gov/news/releases/2007/07/20070716-7.html>].

<sup>31</sup> For text of Bush letter to Sharon, see [<http://www.whitehouse.gov>].

unresolved by keeping the U.S. Embassy in Tel Aviv. In 1995, Congress mandated that the embassy be moved to Jerusalem,<sup>32</sup> 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. The failure of the State Department to follow congressional guidance on Jerusalem prompted a response in H.R. 2601, the Foreign Relations Authorization bill, passed in the House on July 20, 2005.<sup>33</sup> The Senate did not pass an authorization bill, and it did not become law.<sup>34</sup> H.R. 895, introduced on February 7, 2007, would reaffirm Congress's prior steps toward recognizing Jerusalem as the capital of Israeli.

**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 current administration has not attempted to revive Israeli-Syrian peace talks. Olmert and the Bush Administration appear to agree on isolating Damascus until it ends its relations with terrorists and Iran. Yet, some in the Israeli coalition, Knesset, and press want their government to engage Damascus in peace talks in order to remove it from an alliance with Teheran that enhances the Iranian threat to the Jewish State.

**Democratization Policy.** Some Israeli officials have questioned possible unintended consequences of the U.S. democratization policy in the Middle East, believing that it is aiding extremist organizations to gain power positions and to be legitimized. Alarmed, they cite the examples of Hezbollah in Lebanon, Hamas in the Palestinian Authority, and the Muslim Brotherhood in Egypt.<sup>35</sup>

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

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<sup>32</sup> P.L. 109-102, November 14, 2005.

<sup>33</sup> H.R. 2601 (d) requires that "accurate entries be made on request of citizen." Specifically, for the purpose of the issuance of a passport to a U.S. citizen born in Jerusalem, the Secretary of State shall upon the request of the citizen or the citizen's legal guardian, record the place of birth as Israel. See also CRS Report RL33530, *Israeli-Arab Negotiations: Background, Conflicts, and U.S. Policy*, by Carol Migdalovitz; and CRS Report RL33000, *Foreign Relations Authorization, FY2006 and FY2007: An Overview*, coordinated by Susan Epstein.

<sup>34</sup> In August 2006, El Salvador notified the Israeli Foreign Ministry that it was moving its embassy from Jerusalem to Tel Aviv. With that move, no country that has diplomatic relations with Israel will have an embassy in Jerusalem.

<sup>35</sup> For example, head of military intelligence, Maj. Gen. Amos Yadlin, in Ahiya Raved, "Intelligence Chief: Strategic Threats on Israeli Rising," *Ynetnews*, June 20, 2006, Open Source Center Document GMP20060621746004.

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

The U.S.-Israel Energy Cooperation Act, S. 838, introduced on March 12, 2007, and H.R. 1838, introduced on March 29, would authorize a grant program of \$20 million for each of fiscal years 2008 through 2014 to fund joint ventures between U.S. and Israeli businesses and academics for research, development, or commercialization of alternative energy, improved energy efficiency, or renewable energy sources.

**Aid.** Israel was the largest recipient of U.S. foreign aid after 1976 and until Iraq supplanted it after 2003. In 1998, Israeli, congressional, and Administration officials agreed to reduce U.S. \$1.2 billion in Economic Support Funds (ESF) to zero over ten years, while increasing Foreign Military Financing (FMF) from \$1.8 billion to \$2.4 billion. The process began in FY1999, with P.L. 105-277, October 21, 1998, and concludes with FY2008. Separately from the scheduled ESF cuts, Israeli received an extra \$1.2 billion to fund implementation of the Wye agreement (part of the Israeli-Palestinian peace process) in FY2000, \$200 million in anti-terror assistance in FY2002, and \$1 billion in FMF in the supplemental appropriations bill for FY2003.

H.R. 5522, the Foreign Operations Appropriations bill, FY2007, passed in the House on June 9, 2006, appropriated \$120 million in ESF, \$40 million for migration and refugee assistance, and \$2.34 billion in FMF (of which \$610 million may be spent for defense acquisitions in Israel) for Israel. The Senate did not pass a bill. Foreign Operations programs for FY2007 are operating under the terms of a continuing appropriations resolution (H.R. 5631/P.L. 109-289, as amended) which provides funding at the FY2006 level or the House-passed FY2007 level, whichever is less; for Israel, it is the House FY2007 bill. Israel also received \$240,000 in Non-proliferation, Anti-terrorism, Demining and Related programs (NADR) funds for FY2007. For FY2008, the Administration requested 2.4 billion in FMF and \$500,000 in International Narcotics Control and Law Enforcement (INCLE) funds for Israel. H.R. 2764, the Foreign Operations Appropriations bill, FY2008, passed in the House on June 22, 2007, provides \$2.4 billion in FMF, of which \$631.2 million may be spent in Israel, and \$40 million for refugee assistance.

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

After meeting Prime Minister Olmert at the White House on June 19, 2007, President Bush said that a new 10-year aid agreement would be signed to ensure that Israel retains a "qualitative military edge." The President also directed Secretary of Defense Robert Gates to expedite approval of IDF procurement requests in order to replenish arms and materiel used during the 2006 war against Hezbollah in Lebanon.

Congress has legislated other special provisions regarding aid to Israel. Since the 1980s, ESF and FMF have been provided as all grant cash transfers, not designated

for particular projects, and have been transferred as a lump sum in the first month of the fiscal year, instead of in periodic increments. Israel is allowed to spend about one-quarter of the military aid for the procurement in Israel of defense articles and services, including research and development, rather than in the United States. Finally, to help Israel out of its economic slump, P.L. 108-11, April 16, 2003, provided \$9 billion in loan guarantees (for commercial loans) over three years. As of September 2006, \$4.5 billion of the guarantees were unexpended.<sup>36</sup> P.L. 109-472, January 11, 2007, extends the period for which the guarantees are to be provided for a second time until September 30, 2011.

**Security Cooperation.** Although Israel is frequently referred to as an ally of the United States, the two countries do not have a mutual defense agreement. Even without a treaty obligation, President Bush has said several times that the United States would defend Israel militarily in the event of an attack.<sup>37</sup>

On November 30, 1981, U.S. Secretary of Defense Caspar Weinberger and Israeli Minister of Defense Ariel Sharon signed a memorandum of understanding (MOU), establishing a framework for continued consultation and cooperation to enhance the national security of both countries. In November 1983, the two sides formed a Joint Political Military Group (JPMG), which meets twice a year to implement 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. On January 21, 2007, Under Secretary of State Burns and Deputy Secretary of Defense Gordon Englund headed a U.S. delegation to Tel Aviv for the annual talks, reportedly focused on Iran. Minister of Transportation Shaul Mofaz and Defense Ministry Director General (now Chief of Staff) Gabi Ashkenazi led the Israeli delegation. After the meeting, Mofaz reported that the Americans wanted to increase the dialogue sessions to four a year.

Secretary of Defense Robert Gates' visit to Israel in April 2007, the first by a U.S. Secretary of Defense in eight years, was seen as a clear sign that strains in the relationship had truly eased. His meetings included discussions of bilateral military-to-military relations, the peace process, Syria, Iran, and Iraq. Gates tried to assure his Israeli interlocutors that a planned U.S. arms sale to Saudi Arabia, reportedly to

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<sup>36</sup> See also CRS Report RL33222, *U.S. Foreign Aid to Israel*, by Jeremy Sharp.

<sup>37</sup> 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.

include satellite-guided munitions, was needed to counter the Iranian threat and would not threaten Israel's military superiority.<sup>38</sup>

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 Defense Appropriations Act for FY2007, P.L. 109-289, September 29, 2006 appropriates approximately \$138 million for the Arrow program. Of this amount, \$53 million is for producing missile components in the United States and missile components and missiles in Israel to meet Israel's defense requirements, and \$20.4 million is for a joint feasibility study of the Short Range Ballistic Missile Defense (SRBMD) initiative, a missile interceptor designed to thwart missiles and rockets from 40 to 200 kilometers that is not expected to be operational before 2011. 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. On May 17, 2007, the House passed H.R. 1585, the Defense Authorization Act for FY2008, authorizing full funding of the Administration's request of \$73.5 million for the Arrow and \$7 million for the joint SRBMD, known as "David's Sling." Sec. 228 of the bill requires the Secretary of Defense to expand the U.S. ballistic missile defense system "to better integrate with the defenses of Israel to provide robust, layered protection against ballistic missile attack." It provides an additional \$25 million to complete accelerated co-production of Arrow missiles, \$45 million to continue joint development of David's Sling, and \$135 million to begin acquisition of a Thermal High Altitude Area Defense (THAAD) fire unit in order to provide Israel with a follow-on missile defense system of greater performance than the Arrow.

Security cooperation extends to cooperation in counterterrorism. The House passed H.R. 884, the Promoting Antiterrorism through Technology and Sciences Act (PACTS Act) on February 27, 2007; it includes Israel as a possible foreign partner for international cooperative activities.

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 such fields as 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. H.Res. 235, introduced and referred to the Committee on Foreign Affairs on March 9, 2007, states that Israel is deserving of NATO membership and supports upgrading Israel's relationship with NATO to that

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<sup>38</sup> David S. Cloud and Jennifer Medina, "Gates Assures Israel on Plan to Sell Arms to Saudis," *New York Times*, April 20, 2007.

of a leading member of the Mediterranean Dialogue and member of the Partnership for Peace.

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 that restrict use of U.S. supplies cluster munitions to certain military targets in non-civilian areas. On January 28, 2007, the State Department informed Congress of preliminary findings that Israel may have violated agreements by using cluster bombs against civilian populated areas. A final determination has not been made. Israel has denied violating agreements, saying that it had acted in self-defense. The U.N. has reported that 30 deaths and 180 injuries in southern Lebanon from the weapons since the war ended.<sup>39</sup> On June 28, the Senate Appropriations Committee approved its version of H.R. 2764, the Foreign Operations Appropriations bill, FY2008, including a clause restricting Israel's ability to use U.S. military aid for cluster bombs unless they have a failure rate of 1 percent or less and would be used only against clearly defined military targets and no where civilians are known to be present.

## Other Issues

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

The United States and Israel have regularly discussed Israel's sale of sensitive security equipment and technology to various countries, especially China. Israel reportedly is China's second major arms supplier, after Russia.<sup>40</sup> U.S. administrations believe that such sales are potentially harmful to the security of U.S. forces in Asia. In 2000, the United States persuaded Israel to cancel the sale of the Phalcon, an advanced, airborne early-warning system, to China. More recently, Israel's agreement to upgrade Harpy Killer unmanned aerial vehicles (UAVs) that it sold to China in 1999 angered the Department of Defense (DOD). China tested the weapon over the Taiwan Strait in 2004. In reaction, DOD suspended technological cooperation with the Israel Air Force on the future F-35 Joint Strike Fighter (JSF) aircraft as well as several other cooperative programs, held up shipments of some military equipment, and refused to communicate with the Israeli Defense Ministry Director General, whom Pentagon officials believed had misled them about the Harpy deal.

On August 17, 2005, the U.S. DOD and the Israeli Ministry of Defense issued a joint press statement reporting that they had signed an understanding "designed to remedy problems of the past that seriously affected the technology security relationship and to restore confidence in the technology security area. In the coming

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<sup>39</sup> David S. Cloud and Greg Myre, "Israel May Have Violated Arms Pact, U.S. Officials Say," *New York Times*, January 28, 2007.

<sup>40</sup> 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.

months additional steps will be taken to restore confidence fully.”<sup>41</sup> According to the Israeli newspaper *Ha'aretz*, Israel will continue to voluntarily adhere to the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, without actually being a party to it. On November 4, in Washington, Defense Minister Mofaz announced that Israel would again participate in the F-35 JSF project and that the crisis in relations was over.

In March 2006, the new Defense Ministry Director General Jacob Toren said that an interagency process had begun approving marketing licenses for Israeli firms to sell selected dual-use items and services to China, primarily for the 2008 Olympic Games, on a case-by-case basis. On July 17, 2007, the Knesset passed a Law on Control of Defense Exports, new regulations that 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.

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

**Espionage-Related Cases.** In November 1985, Jonathan Pollard, a civilian U.S. naval intelligence employee, and his wife were charged with selling classified documents to Israel. Four Israeli officials also were indicted. The Israeli government claimed that it was a rogue operation. Pollard was sentenced to life in prison and his wife to two consecutive five-year terms. She was released in 1990, moved to Israel, and divorced Pollard. Israelis complain that Pollard received an excessively harsh sentence. Israel granted him citizenship in 1996, and he remains a cause celebre in Israel. Israeli officials repeatedly raise the Pollard case with U.S. counterparts, but no formal request for clemency is pending.<sup>42</sup> Pollard's Mossad handler Rafi Eitan, now 79 years old, is head of the Pensioners' Party and a member of the current government. On June 8, 2006, the Israeli High Court of Justice refused to intervene in efforts to obtain Pollard release.

On June 13, 2005, U.S. Department of Defense analyst Lawrence Franklin was indicted for the unauthorized disclosure of classified information (about Iran) to a foreign diplomat. Press reports named Na'or Gil'on, a political counselor at the Israeli Embassy in Washington, as the diplomat. Gil'on has not been accused of wrongdoing and returned to Israel. Then Foreign Minister Silvan Shalom strongly denied that Israel was involved in any activity that could harm the United States, and Israel's Ambassador to the United States declared that "Israel does not spy on the United States." Franklin had been charged earlier on related counts of conspiracy to communicate and disclose national defense information to "persons" not entitled to receive it. On August 4, 2005, two former officials of the American Israel Political

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<sup>41</sup> "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.

<sup>42</sup> See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, by Richard Best and Clyde Mark.

Action Committee (AIPAC), Steven J. Rosen and Keith Weissman, whom AIPAC fired in April 2005, were identified as the “persons” and indicted for their parts in the conspiracy. Both denied wrongdoing. On October 24, their attorneys asked the court to summon Israeli diplomats to Washington for testimony. On January 20, 2006, Franklin was sentenced to 12 years, 7 months in prison.

Rosen and Weissman are the first nongovernment employees ever to be indicted under the 1917 Espionage Act for receiving classified information orally; they argue that they were exercising protected free speech and the law was designed to punish government officials. In August, a judge ruled that “the rights protected by the First Amendment must at times yield to the need for national security.” However, he required the government to establish that national security is genuinely at risk and that those who wrongly disclosed the information knew that disclosure could harm the nation. A trial date has not been set.

**Intellectual Property Protection.** The “Special 301” provisions of the Trade Act of 1974, as amended, require the U.S. Trade Representative (USTR) to identify countries which deny adequate and effective protection of intellectual property rights. In April 2005, the USTR elevated Israel from its “Watch List” to the “Priority Watch List” because it had an “inadequate data protection regime” and intended to pass legislation to reduce patent term extensions. The USTR singled out for concern U.S. biotechnology firms’ problems in Israel and persistent piracy affecting of U.S. copyrights. In 2006, the USTR retained Israel on the Priority Watch List due to continuing concern about copyright matters and about legislation Israel had passed in December 2005 that weakened protections for U.S. pharmaceutical companies.<sup>43</sup> According to Deputy Secretary of Commerce David Sampson, the U.S. government claims that parties in Israel are making unfair use of information submitted when patented pharmaceuticals are registered in Israel and demands that the information not be transferred to powerful Israeli generic drug companies, such as Teva. It also is concerned about software, music and DVD piracy in Israel.<sup>44</sup> In April 2007, the USTR again kept Israel on the Priority Watch List because “Israel appears to have left unchanged the intellectual property regime that results in inadequate protection against unfair commercial use of data generated to obtain marketing approval.” On May 2, the Israeli Ministry of Industry, Trade and Commerce responded that Israel had “complied completely in all areas that had been deemed lacking in the past.”

## **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:

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<sup>43</sup> For U.S. government explanation of Israel’s listing on the Priority Watch List, see *Full Version of the 2006 Special 301 Report*, April 28, 2006, accessible at [<http://www.ustr.gov>]

<sup>44</sup> Ora Coren, “U.S. Worried about Israel’s Intellectual Property Laws,” *Ha’aretz*, February 1, 2007.



[<http://www.ajc.org/site/c.ijITI2PHKoG/b.685761/k.CB97/Home.htm>]

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

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

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

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

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

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

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

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

Figure 1. Map of Israel



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