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Israel: Background and Relations with the United States

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Israel: Background and Relations with the United States

SUMMARY

On May 14, 1948, the State of Israel declared its independence and was immediately engaged in a war with all of its neighbors. Armed conflict has marked every decade of Israel's existence. Despite its unstable regional environment, Israel has developed a vibrant parliamentary democracy, albeit with relatively fragile governments. Prime Minister Ariel Sharon formed the current three-party coalition in January 2005 in order to secure support for his plan to withdraw from the Gaza Strip and four small settlements in the West Bank. Evacuation of the settlers was completed on August 23. Some observers are predicting an early national election in 2006.

Israel has an advanced industrial, market economy in which the government plays a substantial role. The economy has recovered from declines experienced due to the Palestinian *intifadah* (uprising) against Israeli occupation and the international high-tech crash. The government is attempting to reduce the role of government in the economy.

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 blames Iran for supporting anti-Israel terrorists. Israel negotiated a series of agreements with the Palestinians in the 1990's, but the Oslo peace process ended in 2000, shortly after the beginning of the *intifadah*. Israeli and Palestinian officials resumed contacts after the death of Yasir Arafat. Both sides have accepted the internationally-brokered framework for achieving a two-state solution, known as the "Roadmap." Yet, Israel's vision of a Palestinian state remains unclear. Israel concluded a peace treaty with Egypt in 1979 and with Jordan in 1994, but never reached accords

with Syria and Lebanon. It unilaterally withdrew from southern Lebanon in 2000.

Israel's relations with the European Union are important because the European countries collectively represent Israel's second largest trading partner and the EU is a participant in the peace process. Israel considers the EU to be biased in favor of the Palestinians and objects to its assuming an even larger role in the peace process.

Since 1948, the United States and Israel have developed a close friendship based on common democratic values, religious affinities, and security interests. U.S.-Israeli bilateral relations are multidimensional. The United States is the principal proponent of the Arab-Israeli peace process, but U.S. and Israeli views differ on various peace process issues, such as the fate of the Golan Heights, Jerusalem, and Israeli settlements. The United States and Israel concluded a free-trade agreement in 1985, and the United States is Israel's largest trading partner. Since 1976, Israel has been the largest recipient of U.S. foreign aid. While the two countries do not have a mutual defense agreement, they do have very close security relations.

Current 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.

See also archived CRS Issue Brief IB85066, *Israel: U.S. Foreign Assistance* (available from author); CRS Issue Brief IB91137, *The Middle East Peace Talks*, and CRS Report RS22000, *Israel's Disengagement from Gaza*, all by Carol Migdalovitz.



MOST RECENT DEVELOPMENTS

On October 5, 2005, Pentagon analyst Larry Franklin entered a guilty plea to two counts of conspiracy related to his transfer of classified national defense information concerning Iran to the political counselor at the Israeli Embassy in Washington and the two American Israel Public Affairs Committee (AIPAC) officials. His sentencing is scheduled for January.

On October 10, after meeting with U.S. Assistant Secretary of State for Near Eastern Affairs C. David Welch, Israeli Foreign Minister Silvan Shalom announced that the United States has decided to resume its strategic dialogue with Israel after a hiatus of three years. Some observers suggest that the resumption is linked to the end of bilateral tensions related to Israeli arms sales to China.

BACKGROUND AND ANALYSIS

Historical Overview of Israel¹

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, then 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 1960's, it also has dealt with the asymmetric threat of terrorism from Palestinian groups. In 1979, Israel concluded a peace treaty with Egypt, the predominant Arab country, thus making another multi-front war unlikely. Israel's current relations with its neighbors are discussed in "Foreign Policy" below.

¹ For more, see Howard M. Sachar, *A History of Israel: From the Rise of Zionism to Our Time*, New York, Knopf, 1996.

Government and Politics

Overview

Israel is a parliamentary democracy in which the President is chief of state and the Prime Minister is chief of government. The President, Moshe Katzav, is elected by the unicameral parliament (the Knesset) for a seven-year term. The Prime Minister, Ariel Sharon, is the leader of the Likud party with the most seats in parliament. The Israeli 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. 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.

As a result of the January 2003 national elections, 17 parties or blocs are currently represented in the 120-seat Knesset. Sharon's first government was a coalition of the right wing Likud, secularist Shinui, far-right National Union, and the orthodox National Religious Party (NRP). Ministers from National Union and NRP resigned or were ousted because of their opposition to Sharon's plan to disengage (withdraw) from the Gaza Strip and four northern West Bank settlements. Shinui was forced out after it voted against a budget to increase funding for religious services and schools designed to attract other religious parties to a new coalition.

On January 10, 2005, Sharon formed a new government to ensure approval of his disengagement plan. Because a third (13 members) of his own Likud party opposed disengagement, Sharon had to build a coalition large enough to overcome the loss of their votes. The present coalition includes Likud, Labor, and the orthodox United Torah Judaism. The government was narrowly approved by a vote of 58-56, only because opposition leftist and Arab parties which favored disengagement abstained. The next national election is scheduled to be held in November 2006, but many analysts predict an early national election.

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. The Basic Laws may eventually become chapters in a constitution. Israel has an independent judiciary, with a system of magistrates courts and district courts topped by a Supreme Court.

Parties in the Knesset

| Seats | Party |
|-------|----------------------------------|
| 40 | Likud |
| 19 | Labor/Meimad |
| 15 | Shinui |
| 11 | Shas |
| 7 | National Union |
| 6 | National Religious Party (NRP) |
| 6 | Meretz/Yahad |
| 5 | United Torah Judaism (UTJ)** |
| 3 | Am Ehad |
| 3 | Hadash/Ta'al |
| 3 | Nat'l. Democratic Assembly/Balad |
| 2 | United Arab List |

* Elected as Yahad/Democratic Choice

**Elected as Agudat Yisrael, 3, Degel Hatorah, 2

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.

Current Political Situation

As reflected in different polls, a fluctuating majority of Israelis favored disengagement from Gaza. Settler groups and their supporters seemed to define the terms of the public debate, while supporters were less vocal. Sharon argued his case for disengagement on June 28: “We will leave the Gaza Strip, an area where there is no chance of establishing a Jewish majority and which everybody realizes will not be part of the State of Israel under any permanent arrangement. At the same time, we will concentrate our efforts on the areas most important to ensure our existence: the Galilee, the Negev, greater Jerusalem, the settlement blocs, and security zones.” On June 30, the Prime Minister further declared that disengagement will have “a decisively positive influence” on security, the economy, and quality of life in the country, help moderate Palestinian forces, and bolster ties with the United States and Egypt.

Key Cabinet Officers

Ariel Sharon, Prime Minister
(also holds Social Welfare portfolio)
Shimon Peres, Vice Premier
Ehud Olmert, Vice Premier, Minister of Industry,
Trade, and Labor, and Acting Minister of
Finance
Silvan Shalom, Deputy Prime Minister and
Foreign Minister
Shaul Mofaz, Minister of Defense
Limor Livnat, Minister of Education, Culture, and
Sport
Tzipi Livni, Minister of Immigrant Absorption
and Minister of Justice
Ophir Pines-Paz, Minister of the Interior

As noted above, disengagement split Likud, and intraparty politics became heated in anticipation of a contest for party leader and the next national election. Sharon has several possible challengers/successors. The strongest challenge is from former Prime Minister and former Finance Minister “Bibi” Netanyahu, who resigned from the government on August 7, 2005, to protest disengagement and declared his candidacy for chairman of Likud on August 30. Uzi Landau, a staunch opponent of disengagement, and Moshe Feiglin, of the far-right “Jewish Leadership” faction, also have declared their candidacies. Possible Sharon successors who are not challengers include Deputy Prime Minister Olmert, Foreign Minister Shalom, and Defense Minister Mofaz.

Opponents of disengagement and of Sharon submitted signatures to force the convening of the 3,000-person Likud Central Committee, which is more right-wing than the general Likud electorate, to call an early party leadership primary to depose Sharon. On September 26, the Central Committee met but narrowly refused to schedule an early primary by a vote of 1,433 to 1,329.

Although Sharon has declared that he will fight for the Likud party leadership in the spring 2006 primary, analysts have spun alternative scenarios. In a “big bang,” Likud would split into Netanyahu and Sharon parties, and Sharon’s would join Labor and Shinui to form

a new center party. Undermining this vision is Labor Party leader Shimon Peres's disavowal of any interest in a merger and Shinui leader Yosef "Tommy" Lapid's call for Sharon to quit political life. According to a possibly more likely "little bang" script, Likud would simply split in two.

For its part, Labor had to postpone a leadership primary due to irregularities in a massive new member registration drive. The primary is now scheduled for November 9. Shimon Peres, the 82-year-old former Prime Minister and Nobel Prize winner, has served as acting leader since months after the party's loss in the 2003 national election. He wants to implement elements of the Roadmap peace process framework as an incentive to get the Palestinians to fight terror, differing from Sharon who has made the fight against terror a precondition for the next stage of the peace process. Peres's advocacy of joining the government to support disengagement subordinated his party's social and economic positions to Likud's liberal economic agenda and received a mixed reception among the party rank and file. Peres is running for party leader against four challengers: Histadrut labor federation leader Amir Peretz, Infrastructure Minister Benjamin Ben Eliezer, and Minister without Portfolio Matan Vilna'i, with Peretz appearing to be Peres's strongest opponent and perhaps forcing a run-off in a primary. Former Prime Minister Ehud Barak is supporting Peres.

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 about the same as that in Cyprus, one of the wealthier, new European Union members. Despite limited natural resources, the agricultural and industrial sectors are well-developed. An advanced high tech sector includes aviation, communications, computer-aided design and manufactures, medical electronics, and fiber optics. Israel greatly depends on foreign aid and loans and contributions from the Jewish diaspora. After economic declines in 2001 and 2002 due to the effects of the Palestinian *intifadah* (uprising) on tourism and the bursting of the global high-tech bubble, Israel's economy has substantially recovered since 2003, has regained pre-intifadah levels of growth and personal income, and is growing at a pace not

Basic Facts

| | |
|--|--|
| Population | 6.2 million (2005 est.) |
| Population Growth Rate | 1.39% (2003 est.) |
| Ethnic Groups | — Jewish 80.1% (1996) |
| | — non-Jewish (mostly Arab) 19.9% (1996)* |
| GDP Growth Rate | 3.9 (2004 est.) |
| GDP Per Capita | \$20,400 (2004 est.) |
| Inflation Rate | 0% (2004 est.) |
| Unemployment Rate | 10.7% (2004 est.) |
| Foreign Debt | \$74.46 billion (2004 est.) |
| Imports | crude oil, grains, raw materials, military equipment |
| Exports | cut diamonds, high-technology equipment, fruits and vegetables |
| Main Trading Partners | United States, Belgium, Germany, United Kingdom |
| Sources: CIA, <i>The World Factbook</i> , 2004; and the Israeli government. | |
| *Within 1967 borders. | |

seen since the 1990s. Most economic indicators are positive: inflation is low, employment and wages are rising, and the standard of living is rising. Former Finance Minister Netanyahu claims credit for the improvement. Under his leadership, 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. Netanyahu's critics, however, suggest that his program of cuts in social spending widened the national income gap and increased the underclass, and statistical data support this analysis.

Current Issues

Prime Minister Sharon insists that disengagement from Gaza, despite its estimated \$2 billion cost, will economically benefit the country because "optimism" in the political sphere will result in a rise in tourism, foreign investments, and consumption.

New legislation requires banks to divest themselves of mutual funds and other holdings to increase competition in the capital markets and gradually decreases income and corporate tax rates while increasing capital gains taxes. In addition, the government is implementing a welfare-to-work policy based on the U.S. "Wisconsin Plan."

Sharon named Vice Premier Ehud Olmert as Acting Finance Minister to replace Netanyahu, and Olmert said that he will continue Netanyahu's economic policies. Olmert had previously advocated both accelerated tax cuts and more attention to social and employment issues. He has requested Ministry staff to work with the Ministry of Industry and the Bank of Israel to develop a plan to fight poverty and to include agreements reached in discussions with the Labor Party about its proposal for a "war on poverty" in the plan. Gaining Knesset approval of Olmert's appointment and of the new budget are expected to be the first tests of Sharon's renewed leadership after the October recess.

Foreign Policy

Middle East

Iran. Israeli officials state that Iran will pose an existential threat to Israel if it achieves nuclear capability because the declared aim of the Iranian theocracy is the destruction of Israel and Iran already has a missile, the Shahab-3, capable of delivering a warhead to Israel. They add that they will not allow any country in the region to arm itself with nuclear weapons, citing Israel's bombing of Iraq's reactor at Osirak in 1981 as a precedent. They have called on the international community to thwart Iran's nuclear ambitions to avert the need for Israeli military action. While U.S. Vice President Dick Cheney warned in early 2005 that Israel might act pre-emptively against Iran, Israeli Defense Minister Shaul Mofaz countered, urging a U.S. pre-emptive strike. In June 2005, Mofaz said that U.S. and European diplomatic and economic pressure could resolve the issue. Because Iran will probably not be able to produce a nuclear bomb until 2008 to 2012, Israeli officials may not assess the situation as sufficiently pressing to warrant a military strike in the near term. Moreover, Israel itself has nuclear weapons, and the prospect of a counterattack is seen as a deterrent against an Iranian attack.

Iran also provides financial, political, and/or military support to Hizballah, Hamas, Palestinian Islamic Jihad, the Al Aqsa Martyrs' Brigades, and the Popular Front for the Liberation of Palestine-General Command — Palestinian terrorist groups that seek to obstruct the peace process and destroy Israel. Relations between Israel and Iran are unlikely to change as long as theocrats hold power in Teheran; newly elected President Mahmud Ahmadinejad shares their views about the illegitimacy of Israel and, on October 26, 2005, reportedly called for it to be “wiped off the map.”

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 administration with territorial control over parts of the West Bank and Gaza Strip. After Sharon came to power and during the *intifadah*, Israel refused to deal with the late Palestinian leader Yasir Arafat. Since Arafat's death in November 2004 and the election of Mahmud Abbas as President of the Palestinian Authority (PA) in January 2005, Israel's relations with the PA and its leaders have improved. 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 in March. Although Israeli officials described the disengagement from the Gaza Strip as unilateral, they met with Palestinian counterparts to coordinate aspects of implementation of the disengagement plan, notably security and disposition of assets.

In addition to its 25 former settlements in the Gaza Strip, Israel still has 242 settlements, other civilian land use sites, and many 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 continuing to build 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. Critics suggest that the barrier is taking the form of a future border between Israel and Palestine and also is intended to cut the Palestinians off from East Jerusalem.

The Israeli government accepted the Roadmap, the framework for a peace process leading to a two-state solution, developed by the United States, European Union, U.N., and Russia, reluctantly and with many conditions. Sharon has stated that he would like to “give” the Palestinians a state, but he has not described his vision of one. The Palestinians fear that he foresees a state on about 42% of the territory of the West Bank as he suggested shortly after he became Prime Minister. Sharon contends that the Roadmap requires that the PA first fight terror, by which he means disarm militants and dismantle their infrastructure. Abbas prefers to include groups such as Hamas in the political system and refuses to disarm them. Sharon is likely to emphasize disarmament of militants when the international community pressures him to revive a robust peace process.

Egypt. After fighting four wars in as many decades, Israel and Egypt signed a peace treaty in 1979. In 1982, Israel withdrew from the Sinai Peninsula, which it had taken in the 1967 war. Egypt and Israel established diplomatic relations, although Egypt withdrew its ambassador during the four years of the second *intifadah*, 2001-2005, because it objected to Israel's “excessive” use of force against the Palestinians. Some Israelis refer to their ties with Egypt as a “cold peace” because full normalization of relations, such as enhanced trade, bilateral tourism, and educational exchanges, has not materialized. Egyptian President Hosni

Mubarak has visited Israel only once — for the funeral of former Israeli Prime Minister Yitzhak Rabin. Outreach is often one way, from Israel to Egypt. Egyptians say that they are reluctant to engage because of Israel's continuing occupation of Arab lands. Israelis are upset by some Egyptian media and religious figures' anti-Israeli and occasionally anti-Semitic rhetoric. Nonetheless, the Egyptian government often plays a constructive role in the Arab-Israeli peace process, hosting meetings and acting as a liaison. In March 2005, it helped secure the informal Palestinian truce and, in July, tried to prevent the truce from breaking due to violence between Palestinian factions and Israel and between Palestinian Authority security forces and the factions. Egypt wants Gaza to be peaceful after Israel's disengagement and has deployed 750 border guards to secure the Gaza-Egyptian border (14 kilometers of land border and 3 km of sea). After one year, the two sides will jointly evaluate the mission. Israel refused an Egyptian request to deploy military border guards, instead of police, for greater control of smuggling along the entire border in Sinai, which some Israelis argue would require a change in the military appendix of the 1979 peace treaty.

In December 2004, Egypt and Israel signed a Qualified Industrial Zone (QIZ) Agreement under which jointly produced goods will enter the U.S. market duty free as part of the U.S.-Israeli Free Trade Agreement (FTA). 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 first made in an addendum to the 1979 peace treaty. The deal includes cooperation in construction of infrastructure and may expand to other energy areas. Gas is not expected to flow before 2007. (See also CRS Issue Brief IB93087, *Egypt-United States Relations*, updated regularly.)

Jordan. Israel and Jordan signed a peace treaty in October 1994 and exchanged ambassadors, although Jordan did not have an ambassador in Israel during most of the intifadah. Relations have developed with trade, cultural exchanges, and water-sharing agreements. Since 1997, Jordan and Israel have collaborated in creating 13 qualified industrial zones (QIZs) to export jointly produced goods to the United States duty-free under the U.S.-Israel Free Trade Agreement. 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. The King is very supportive of the peace process, wants the Roadmap to be implemented, and has hosted meetings between Israeli and Palestinian leaders. He offered to deploy the Palestinian Badr Brigade from Jordan to the West Bank to assist with security, but Israel rejected the offer. On August 3, 2005, in Jordan, Defense Minister Mofaz said, however, that Israel would agree to allow the Brigade to train Palestinians in the West Bank. (See also CRS Issue Brief IB93085, *Jordan: U.S. Relations and Bilateral Issues*, by Alfred Prados; 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.)

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 making Israeli law applicable there. There are 42 Israeli settlements on the Golan. Syrian President Bashar al-Asad has said that he wants to hold peace talks with Israel, but Israeli officials demand that he first meet several preconditions. They demand that he cease supporting the Lebanese Hizballah militia, which attacks Israeli forces in the disputed Sheba'a Farms area of Lebanon

and communities in northern Israel and aids Palestinian militant groups. In addition, they want Asad to expel Palestinian rejectionist groups, i.e., those who do not agree with the Israeli-Palestinian peace process. Many Israelis, including Prime Minister Sharon, maintain that some or all of the Golan is essential for their security, and suggest that any talks will be aimed at securing Israel's presence there. At this time, most observers believe that, without significant progress in the Israeli-Palestinian talks, the Israeli-Syrian track will remain moribund. (See also CRS Issue Brief IB92075, *Syria: U.S. Relations and Bilateral Issues*, by Alfred Prados.)

Since Syria was implicated in the February 2005 assassination of former Lebanese Prime Minister Rafiq Hariri, international pressure on the regime of President Bashar al-Asad has mounted. The Israeli government has been noticeably silent regarding these developments, and it may not have yet decided whether it prefers a weak Asad regime on its border or regime change, which some in the U.S. Administration reportedly seek.

Lebanon. Israeli forces invaded Lebanon in 1982 to prevent Palestinian attacks on northern Israel. The forces were gradually withdrawn 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, as some observers suggest, because of Syria's insistence that it first reach an accord with Israel. 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 Sheba'a Farms area, in the region where Lebanon, Syria, and Israel meet. The United Nations has said that Israel's withdrawal was complete and treats the Sheba'a Farms as part of Syria's Golan occupied by Israel. Hizballah took control of the former "security zone," and attacks Israeli forces in Sheba'a and northern Israeli communities. The Lebanese government considers Hizballah to be a legitimate resistance group and as a political party represented in parliament. Israel views it solely as a terrorist group and wants the Lebanese army to move into the south and to disarm Hizballah. (See also CRS Issue Brief IB89118, *Lebanon*; and CRS Report RL31078, *The Shib'a Farms Dispute and Its Implications*, both by Alfred Prados.)

Other. Aside from Egypt and Jordan, Israel has diplomatic relations with Mauritania and Turkey and has had interest or trade offices in Morocco, Tunisia, Oman, and Qatar. However, the latter four suspended relations with Israel during the intifadah. Foreign Minister Shalom had predicted that Israel's relations with Arab and Muslim countries would improve due to its disengagement from Gaza. The first diplomatic breakthrough was his September 1 meeting in Istanbul with the Pakistani foreign minister, although Pakistani officials asserted that they will not recognize Israel until after the establishment of an independent Palestinian state. On September 14, Pakistan's President Musharraf shook Prime Minister Sharon's hand in a "chance" meeting at the U.N. summit in New York. After a devastating earthquake in October, Pakistan agreed to accept Israeli humanitarian aid. Shalom met the Indonesian, Qatari, Algerian, Moroccan, and Tunisian foreign ministers in New York, and plans to visit Tunisia in November. Also in September, Bahrain ended its economic boycott of Israel, a move required by the World Trade Organization and the Bahrain-U.S. Free Trade Agreement. It has vowed, however, not to normalize relations.

European Union

Israel has complex relations with the European Union. 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 appear to share Palestinian suspicions that Sharon’s disengagement plan means “Gaza first, Gaza only” and that it will not lead to the Roadmap process. They observe, 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 prejudice negotiations on borders. Israel is cool to EU overtures because it views many Europeans as biased in favor of the Palestinians and hears an increasing number of European voices questioning the legitimacy of the State of Israel. They contend that the basis of such views is an underlying European anti-Semitism.

Some European representatives have met with or indicated their intention to meet with local Hamas leaders elected in December 2004 to oversee European-funded local projects. Israel asserts that the circumstances that led the EU to place Hamas on its list of terrorist organizations are unchanged and opposes actions that grant Hamas legitimacy at the expense of moderate Palestinian groups. Israel also demands that the EU include Hizballah on its list of terrorist organizations and has protested meetings between European ambassadors and the Hizballah minister 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 European countries combined are Israel’s second largest trading partner, after the United States, but the EU bans imports from Israeli settlements in the occupied territories. (See also CRS Report RL31956, *European Views and Policies Toward the Middle East*, by Kristin Archick; and CRS Report RL31017, *The Barcelona Process: The European Union’s Partnership with the Southern Mediterranean*, by Anja Linder and Joshua Ruebner.)

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 been evolved through legislation, memorandums of understanding, economic, scientific, military agreements, and trade.

Issues

Peace Process. The United States has been the principal international proponent of the Arab-Israeli peace process. President Jimmy Carter mediated the Israeli-Egyptian talks at Camp David which resulted in the 1979 peace treaty. President George H.W. Bush

convened the peace conference in Madrid in 1990 that inaugurated a decade of unprecedented, simultaneous negotiations between Israel, Jordan, Syria, Lebanon, and the Palestinians. President Clinton continued U.S. activism throughout his tenure in office and, in particular, facilitated the Israeli-Jordanian peace treaty in 1994. He also hosted the Israeli-Palestinian summit at Camp David in 2000 that failed to reach a peace settlement.

Secretary of State Condoleezza Rice has not named a Special Middle East Envoy and has said that she will not get involved in direct Israeli-Palestinian negotiations of issues. She prefers to have the Israelis and Palestinians work together, although she has traveled to the region several times in 2005. The Administration supported Israel's disengagement from Gaza as a way to return to the Road Map process to achieve a solution based on two states, Israel and Palestine, living side by side in peace and security. The evacuation of settlers from the Gaza Strip and four small settlements in the northern West Bank was completed on August 23, 2005. (For more, see CRS Report RS22000, *Israel's Disengagement from Gaza*, by Carol Migdalvitz.)

All recent U.S. Administrations have disapproved of Israel's settlement activity as prejudging final status 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 center," (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." He later emphasized that it was a subject for negotiations between the parties.

At times of violence, U.S. officials have urged Israel not use disproportionate force and to withdraw as rapidly as possible from Palestinian areas retaken in security operations. The current Bush Administration has insisted that U.N. Security Council resolutions be "balanced," by criticizing Palestinian as well as Israeli violence and has vetoed resolutions which do not meet that standard.

Since taking East Jerusalem in the 1967 war, Israel has insisted that Jerusalem is its indivisible, eternal capital. Few countries have agreed with this position. The U.N.'s 1947 partition plan called for the internationalization of Jerusalem, while the Declaration of Principles signed by Israel and the Palestine Liberation Organization in September 1993 says that it is a subject for permanent status negotiations. U.S. Administrations have recognized that Jerusalem's status is unresolved by keeping the U.S. Embassy in Tel Aviv. However, in 1995, both houses of Congress mandated that the embassy be moved to Jerusalem, and only a series of presidential waivers of penalties for non-compliance have delayed that event. 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 has prompted a response in H.R. 2601, the Foreign Relations Authorization bill, passed in the House on July 20, 2005. (See also CRS Issue Brief IB91137, *The Middle East Peace Talks*, by Carol Migdalvitz; and CRS Report RL33000, *Foreign Relations Authorization, FY2006 and FY2007: An Overview*, by Susan Epstein, coordinator.)

The United States has never recognized Israel's annexation of the Golan Heights which it views as a violation of international law. Former Secretary of State Warren Christopher said that the United States might be willing to guarantee security arrangements for the Golan

in the context of a sound agreement. The current administration has not attempted to revive Israeli-Syrian peace talks.

Trade and Investment. Israel and the United States concluded a Free Trade Agreement in 1985, and all customs duties between the two trading partners have since been eliminated. The FTA includes provisions that protect both countries' more sensitive agricultural sub-sectors with non-tariff barriers, including import bans, quotas, and fees. Israeli exports to the United States have grown 200% since the FTA became effective. As noted above, qualified industrial zones in Jordan and Egypt are considered to be part of the U.S.-Israeli free trade area. The United States is Israel's main trading partner, while Israel ranks about 20th among U.S. trading partners. In 2004, the United States took 38.4% of its exports (\$6.8 billion), while providing 15.6% of its imports (\$5.4 billion). On the other hand, Israel took only about 1.12% of U.S. exports and provided less than 1% of U.S. imports. The U.S.-Israeli balance of trade favors Israel, with about an 8.41% U.S. deficit.²

Israel also encourages U.S. investment. In July 2005, Intel, the U.S. microchip manufacturer, announced that it would invest \$4.6 billion in its U.S. branch — the largest single foreign investment in the history of Israel. Israel will provide Intel with a grant of 15% of an investment of up to \$3.5 billion or \$525 million to secure the deal.

Aid. Israel has been the largest recipient of U.S. foreign aid since 1976. In 1998, Israeli, congressional, and Administration officials agreed to reduce U.S. \$1.2 billion in Economic Support Funds (ESF) to zero over ten years, while increasing Foreign Military Financing (FMF) from \$1.8 billion to \$2.4 billion. The process began in FY1999, with P.L. 105-277, October 21, 1998. Separately from the scheduled cuts, however, Israeli has received an extra \$1.2 billion to fund implementation of the Wye agreement (part of the Israeli-Palestinian peace process) in FY2000, \$200 million in anti-terror assistance in FY2002, and \$1 billion in FMF in the supplemental appropriations bill for FY2003. For FY2005, Israel will receive \$357 million in ESF, \$2.202 billion in FMF, and \$50 million in migration settlement assistance. For FY2006, the Administration has requested \$240 million in ESF and \$2.28 billion in FMF. H.R. 3057, passed in the House on June 28, 2005, and in the Senate on July 20, approves these amounts. H.Rept. 109-152 and S.Rept. 109-96 also support \$40 million for the settlement of migrants from the former Soviet Union and take note of Israel's plan to bring remaining Ethiopian Jews to Israel in three years.

On July 11, Israeli press reported that Israel is requesting about \$2.25 billion in special aid in a mix of grants and loan guarantees over four years, with one-third to be used to relocate military bases from the Gaza Strip to Israel in the disengagement from Gaza and the rest to develop the Negev and Galilee regions of Israel and for other purposes, but none to help compensate settlers or for other civilian aspects of the disengagement. An Israeli team has visited Washington to present elements of the request, and preliminary discussions are underway. No formal request has been presented to Congress. In light of the costs inflicted on the United States by Hurricane Katrina, an Israeli delegation intending to discuss the aid cancelled a trip to Washington and Deputy Premier and Finance Minister Ehud Olmert said, "The request is being postponed until a more fitting date."

² U.S. Department of Commerce, *World Trade Atlas*.

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, transferred as a lump sum in the first month of the fiscal year, instead of in periodic increments. Israel is allowed to spend about one-quarter of the military aid for the procurement in Israel of defense articles and services, including research and development, rather than in the United States. Finally, to help Israel out of its economic slump, P.L. 108-11, April 16, 2003, provided \$9 billion in loan guarantees over three years, use of which has since been extended to 2008. As of July 2005, Israel had not used \$4.9 billion of the guarantees. (For more details, see archived CRS Issue Brief IB85066, *Israel: U.S. Foreign Assistance*(available from author); and CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2006 Request*, by Jeremy Sharp.)

Security Cooperation. Although Israel is frequently referred to as an ally of the United States, there is no mutual defense agreement between the two countries. 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, which meets twice a year, to implement most provisions of the MOU. Joint air and sea military exercises began in June 1984, and the United States has constructed facilities to stockpile military equipment in Israel.

On May 6, 1986, Israel and the United States signed an agreement (the contents of which are secret) for Israeli participation in the Strategic Defense Initiative (SDI/"Star Wars"). Under SDI, Israel is developing the "Arrow" anti-ballistic missile with a U.S. financial contribution so far of more than \$1 billion and increasing annually. The Administration has requested \$78 million for the program for FY2006. H.R. 2863, the defense appropriations bill passed by the House on June 20, 2005, has recommended that \$77,616,000 be made available for the program, of which \$15 million shall be available to produce missile components in the United States and Arrow missile components and missiles in Israel to meet Israel's defense requirements. The Senate version of the bill, passed on October 7, would make \$143.6 million available for the Arrow program, of which \$70,000 could be used to produce missile components in the United States and Arrow missile components and missiles in Israel. The Senate would provide \$10 million for the Short Range Ballistic Missile Defense (SRBMD) initiative, entailing a joint feasibility study and risk reduction activities. Conference will be held.

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," which affords it preferential treatment in bidding for U.S. defense contracts and access to expanded weapons systems at lower prices.

Other Current Issues

Military Sales. Over the years, 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.³ (Israel is ranked fourth among the world's arms suppliers.) 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. In 2005, the U.S. Department of Defense was angered by Israel's agreement to upgrade Harpy Killer unmanned aerial vehicles (UAVs) that it sold to China in 1999. China tested the weapon over the Taiwan Strait in 2004. The Department 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 Israeli Defense Ministry Director General Amos Yaron, whom Pentagon officials believe misled them about the Harpy deal. According to a reputable Israeli military journalist, the U.S. Department of Defense demanded details of 60 Israeli deals Israeli with China, an examination of Israel's security equipment supervision system, and a memorandum of understanding about arms sales to prevent future difficulties.⁴

On October 21, 2005, it was reported that Israel will freeze or cancel a deal to provide maintenance for 22 Venezuelan Air Force F-16 fighter jets. The Israeli government had requested U.S. permission to proceed with the deal, but permission has not been granted.

H.R. 1815, the Defense Authorization Act for FY2006, passed in the House on May 25, 2005, Sec. 1212, would prohibit the Secretary of Defense from purchasing goods or services from any entity that knowingly transfers an item on the U.S. Munitions List to China. The provision targets the European Union, which was considering lifting the arms embargo it had imposed on China in 1989, but does not specify the EU and, therefore, could affect Israel. On August 17, the U.S. Department of Defense 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 which begins to restore confidence in the technology security area. In the coming months additional steps will be taken to restore confidence fully." 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. Israeli Defense Ministry Director General Yaron retired in mid-September. Israel has not been reinstated to the F-35 program yet.

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, and moved to Israel, where she divorced Pollard. Israelis complain that Pollard received an excessively harsh sentence, and some Israelis have made a cause of his plight. Pollard was granted Israeli citizenship in 1996, and Israeli officials periodically raise the Pollard case with U.S. counterparts, although there is not a

³ 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.

⁴ Ze'ev Schiff, "US Imposes Sanctions on Joint Arms Projects, Israel Notes Desire to Settle Row," *Ha'aretz*, June 12, 2005, FBIS Document GMP20050612613002.

formal request for clemency pending. (See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, by Richard Best and Clyde Mark.)

On June 13, 2005, U.S. Department of Defense analyst Lawrence Franklin was indicted for the unauthorized disclosure of classified information 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. Foreign Minister Shalom strongly denied that Israel was involved in any activity that could harm the United States, and Israel's Ambassador to the United States Daniel Ayalon declared that "Israel does not spy on the United States." Franklin had been charged earlier with conspiracy to communicate national defense information to persons not entitled to receive it and disclosing classified national defense information to a person or persons not entitled to receive it. On August 4, two former officials of the American Israel Political Action Committee (AIPAC), Steven J. Rosen and Keith Weissman, whom AIPAC fired in April, were indicted for their parts in the conspiracy. Both have denied wrongdoing. Franklin, Rosen, and Weissman have not been charged with espionage. On October 24, the attorney for Rosen and Weissman asked the court to summon Israeli diplomats to Washington for testimony to help prove their innocence. It has been alleged that the FBI had authorized Franklin to give classified information to the AIPAC officials in order to "sting" them, expecting them to transmit it to the Israeli Embassy.⁵

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, Israel was elevated from the "Watch List" to the "Priority Watch List" because the USTR determined that it had implemented an "inadequate data protection regime" and intended to pass legislation to weaken patent term adjustments. The USTR singled out for concern U.S. biotechnology firms' problems in Israel and a persistent level of piracy affecting the U.S. copyright industry. Israel's Minister of Industry, Trade, and Labor Ehud Olmert protested the USTR decision, saying that Israel is acting energetically against violations of intellectual property and that his country cannot be compared to others on the list, such as India, China, Russia, Egypt, Brazil, and Argentina. The Israeli newspaper *Ma'ariv* claimed that pressure from U.S. pharmaceutical companies was responsible for Israel's inclusion on the list.⁶

U.S. Interest Groups

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

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

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

⁵ David Ignatius, "Watch This Spy Story," *Washington Post*, August 24, 2005.

⁶ David Lipkin, "Olmert to US: Remove Israel from List of Intellectual Property Violators," *Ma'ariv*, June 8, 2005, p. 2, FBIS Document GMP20050608618003.

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>]

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

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

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

Figure 1. Map of Israel



Source: Map Resources. Adapted by CRS. (K.Yancey 6/29/05).