

# CRS Issue Brief for Congress

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## Israeli-United States Relations

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## Israeli-United States Relations

### SUMMARY

Israeli-U.S. relations are an important factor in U.S. policy in the Middle East, and Congress has placed considerable importance on the maintenance of a close and supportive relationship. The main vehicle for expressing support for Israel has been foreign aid; Israel currently receives about \$3 billion per year in economic and military grants, refugee settlement assistance, and other aid. Congress has monitored the aid issue closely along with other issues in bilateral relations, and its concerns have affected Administration's policies.

U.S.-Israeli relations have evolved from an initial American policy of sympathy and support for the creation of a Jewish homeland in 1948 to an unusual partnership that links a small but militarily powerful Israel, dependent on the United States for its economic and military strength, with the U.S. superpower trying to balance competing interests in the region. Some in the United States question the levels of aid and general commitment to Israel, and argue that a U.S. bias toward Israel

operates at the expense of improved U.S. relations with various Arab states. Others maintain that democratic Israel is a strategic ally, and that U.S. relations with Israel strengthens the U.S. presence in the Middle East.

The United States fully supported the Israeli-PLO Declaration of Principles signed in Washington on September 13, 1993, and the follow-up agreements in May 1994, September 1995, the Hebron agreement of January 15, 1997, and the Wye agreement of October 23, 1998, mediated by President Clinton.

See also CRS Issue Brief IB85066, *Israel: U.S. Foreign Assistance*; CRS Issue Brief IB91137, *The Middle East Peace Talks*; CRS Report RS20339, *Jerusalem: The U.S. Embassy and P.L. 104-45*; and CRS Report RS20001, *Jonathan Pollard: Background and Consideration for Presidential Clemency*.

## **MOST RECENT DEVELOPMENTS**

Following an October 4, 2003, bombing in Haifa that killed 20 and wounded 50, Israeli Defense Forces attacked a training camp in Syria that Israeli leaders said was used by the Palestine Islamic Jihad. Syria authorities said the camp was abandoned two years ago. Syria called for a U.N. Security Council Resolution condemning the Israeli attack..

On October 9, 2003, the National Religious Party threatened to withdraw its six votes from Prime Minister Sharon's 68-vote coalition to protest the Justice Ministry assuming control over the appointment of religious judges to the Rabbinical courts.

## **BACKGROUND AND ANALYSIS**

President Harry Truman recognized Israel on May 15, 1948, within minutes after Israel declared its independence. Past American presidents, encouraged by active support from civic groups, labor unions, political parties, and members of the American and world Jewish communities, supported the concept, articulated in Britain's 1917 Balfour Declaration, of a Jewish homeland.

After World War II, United States support for a Jewish state grew with the desire to help settle the large number of Jewish refugees, displaced persons, and survivors of the Nazi holocaust. Popular support for Israel among U.S. Jews and significant segments of the Christian community has been supplemented by a general identification with Israel as an advanced democratic society with strong liberal and humanitarian values, as a "pioneering" and innovative nation, and as a beleaguered refuge surrounded by hostile and belligerent Arab neighbors.

In the past, U.S. Middle East interests included containing Soviet expansion into the region, ensuring industrialized countries' access to Middle Eastern petroleum resources, fostering the growth of democracy and market economies, maintaining communications and trade with the region, and ensuring Israel's security. On occasion, the United States provided military forces to defend Middle Eastern states, as was the case in Lebanon in 1958, the Kuwait tanker reflagging in 1987, or the war against Iraq in 1991. Israel's military and intelligence capabilities and strategic location contributed to the U.S. objective of containing Soviet expansion into the region. But friendly U.S.- Israeli ties did not advance other U.S. interests in the Middle East. As U.S. relations with Arab nations grew in importance, the United States attempted to balance its stated commitment to Israel with other regional commitments and interests.

Israel and the United States share the view that the United States has a predominant role and responsibility in Middle East peace-making, but in the past Israel has disagreed with the U.S. view of its role as an even-handed peace broker among the parties to the Arab-Israeli dispute. Most Israelis and Israeli supporters have wanted the United States to favor only Israeli positions. The United States has provided arms to Middle Eastern countries for individual and collective defense against aggression. Past U.S. arms transfers to Arab countries have been striking examples of friction in Israeli-U.S. relations, not only because

they underscore the difference in attitudes toward Arab countries, but because Israel perceived arms transfers to Arabs as threatening its security.

## **Israel and Recent U.S. Administrations**

### **Carter Administration (1977-1981)**

The Carter years were characterized by very active U.S. involvement in the Middle East peace process, and, as a consequence, led to some friction in U.S.-Israeli bilateral relations. The Carter-initiated Camp David process was viewed by some in Israel as creating U.S. pressures on Israel to withdraw from occupied territories and to take risks for the sake of peace with Egypt. President Carter's support for a Palestinian "homeland" and for Palestinian political rights created additional tensions with Israel. Some argue that the final text of the Camp David accords represented Israeli Prime Minister Menachem Begin's success in limiting Israeli requirements to deal with the Palestinians.

### **Reagan Administration (1981-1989)**

Israeli supporters expressed concerns early in the first Reagan term about potential difficulties in U.S.-Israeli relations, in part because several Presidential appointees had ties or past business associations with key Arab countries (Secretaries Weinberger and Shultz, for example, were officers in the Bechtel Corporation, which has strong links to the Arab world.) But President Reagan's personal support for Israel and the compatibility between Israeli and Reagan perspectives on terrorism, security cooperation, and the Soviet threat, led to dramatic improvements in bilateral relations. Although the Lebanon war of 1982 exposed some serious differences between Israeli and U.S. policies, such as Israel's use of U.S.-provided military equipment in the attack on Lebanon and Israel's rejection of the Reagan peace plan of September 1, 1982, it did not alter the Administration's favoritism for Israel and the emphasis it placed on Israel's importance to the United States.

U.S.-Israeli ties strengthened during the second Reagan term. The two countries reached a number of precedent-setting agreements in strategic and defense cooperation. Israel was granted "major non-NATO ally" status that gave it access to expanded weapons systems and opportunities to bid on U.S. defense contracts. The United States maintained grant aid to Israel at \$3 billion annually and implemented a Free Trade Agreement in 1985. The second Reagan term ended on what many Israelis considered to be a sour note when the United States opened a dialogue with the Palestine Liberation Organization (PLO) in December 1988. But, despite the U.S.-PLO dialogue, the Pollard spy case in December 1986, or the Israeli rejection of the Shultz peace initiative in the spring of 1988, pro-Israeli organizations in the United States characterized the Reagan Administration (and the 100th Congress) as the "most pro-Israel ever" and praised the positive overall tone of bilateral relations.

### **Bush Administration (1989-1993)**

Secretary of State James Baker told an American-Israel Public Affairs Committee (AIPAC, the pro-Israel lobby) audience on May 22, 1989, that Israel should abandon its

expansionist policies, a remark many took as a signal that the pro-Israel Reagan years were over. Former President Bush raised Israeli ire when he reminded a press conference on March 3, 1990, that east Jerusalem was occupied territory and not a sovereign part of Israel as the Israelis claimed. The United States and Israel disagreed over the Israeli interpretation of the Israeli plan to hold elections for a Palestinian peace conference delegation in the summer of 1989, and also disagreed over the need for an investigation of the Jerusalem incident of October 8, 1990, in which Israeli police killed 17 Palestinians.

On September 27, 1990, amid Iraqi threats against Israel generated by the Iraq- Kuwait crisis, former President Bush repeated the U.S. commitment to Israel's security. Israeli-U.S. tension eased after the start of the Persian Gulf war on January 16, 1991, when Israel became a target of Iraqi Scud missiles. The United States urged Israel not to retaliate against Iraq for the attacks because it was believed that Iraq wanted to draw Israel into the conflict and force other coalition members, Egypt and Syria in particular, to quit the coalition and join Iraq in a war against Israel. Israel did not retaliate, and gained praise for its restraint.

Former President Bush and Secretary Baker were instrumental in convening the Madrid peace conference in October 1991 and in persuading all the parties to engage in the subsequent peace negotiations. It was reported widely that the Bush Administration did not share an amicable relationship with the Shamir government. After the Labor party won the June 23, 1992 election, U.S.-Israel relations appeared to improve. The Labor coalition approved a partial housing construction freeze in the occupied territories on July 19, something the Shamir government had not done despite Bush Administration appeals for a freeze as a condition for the loan guarantees. President Bush announced agreement on the loan guarantees for Israel during Prime Minister Rabin's August 12 and 13, 1992 visit to the United States.

## **Clinton Administration (1993-2000)**

Israel and the PLO exchanged letters of mutual recognition on September 10, and signed the Declaration of Principles on September 13, 1993. President Clinton announced on September 10 that the United States and the PLO would reestablish their dialogue. On October 26, 1994, President Clinton witnessed the Jordan-Israel peace treaty signing, and President Clinton, Egyptian President Mubarak, and King Husayn of Jordan witnessed the White House signing of the September 28, 1995 Interim Agreement between Israel and the Palestinians.

President Clinton attended the funeral of assassinated Prime Minister Yitzhaq Rabin in Jerusalem on November 6, 1995. Following a March 14, 1996 visit to Israel, President Clinton offered \$100 million in aid for Israel's anti-terror activities, another \$200 million for the Arrow anti-missile deployment, and about \$50 million for an anti-missile laser weapon. President Clinton disagreed with Prime Minister Netanyahu's policy of expanding Jewish settlements in the occupied territories, and it was reported that the President believed that the Prime Minister delayed the peace process. President Clinton hosted negotiations at the Wye River Conference Center in Maryland, ending with the signing of an agreement on October 23, 1998. Israel suspended implementation of the Wye agreement in early December 1998, because Prime Minister Netanyahu said the Palestinians violated the Wye Agreement by threatening to declare a state (Palestinian statehood was not mentioned in Wye). In January 1999, the Wye Agreement was delayed until the Israeli elections in May.

Ehud Barak was elected Prime Minister on May 17, 1999, and won a vote of confidence for his government on July 6, 1999. President Clinton and Prime Minister Barak appeared to establish close personal relations during four days of meetings between July 15 and 20 in what many observers believed was a clear reversal of the less than friendly relations between Clinton and Netanyahu. President Clinton mediated meetings between Prime Minister Barak and Chairman Arafat at the White House, Oslo, Shepherdstown, Camp David, and Sharm al-Shaykh in the search for peace. In a January 11, 2001, interview, the President implied that his attempts to arrange a peace had failed and that the task would carry over to the new Bush Administration.

## **Bush Administration (2001 - )**

President George W. Bush and Prime Minister Sharon established good relations in their March and June 2001 meetings. On October 4, 2001, Sharon accused the Bush Administration of appeasing the Palestinians at Israel's expense in a bid for Arab support for the U.S. anti-terror campaign. The White House said the remark was unacceptable. Rather than apologize for the remark, Sharon said the United States failed to understand him. Also, the United States criticized the Israeli practice of assassinating Palestinians believed to be engaged in terrorism, which appeared to some Israelis to be inconsistent with the U.S. policy of pursuing international terrorist Osama bin Laden "dead or alive."

At their seventh White House meeting on October 16, 2002, the President and the Prime Minister discussed the possible U.S. invasion of Iraq, Israel's restrictions on the Palestinians, and Israel's request for additional military aid and loan guarantees to help Israel prepare for the war against Iraq, according to press accounts. On March 25, 2003, the President submitted a supplemental request that sought \$1 billion in military assistance and \$9 billion in loan guarantees for Israel, the amounts included in P.L. 108-11. In preparation for their eighth meeting scheduled for May 19, 2003, Sharon and Bush appeared to disagree over the so-called road map for peace that Israel rejected until the Palestinians stopped all violence against Israel and renounced their claim to the right of return for 1948 refugees. Sharon canceled the White House meeting after a series of terror bombings in Israel on May 16 and 17. Sharon, Bush, and Palestinian Prime Minister Abbas met at Aqaba, Jordan, on June 4, 2003, to begin a new round of peace negotiations. President Bush repeated the U.S. pledge to Israel's security. Sharon and Bush met again at the White House on July 24, 2003.

## **Issues in U.S.-Israeli Relations**

### **Peace Process**

The United States and Israel share the goal of peace between Israel and its Arab neighbors but the two nations have not always agreed on the best way to achieve peace or on the peace process. (For a summary of current peace talks, see CRS Issue Brief IB91137, The Middle East Peace Talks.)

**Withdrawal from Occupied Territories.** From 1967 until the election of Prime Minister Begin in May 1977, the United States and Israel interpreted U.N. Resolution 242 to mean that Israel would withdraw from most of the occupied territories in exchange for

peace. The Israeli Labor party continues to support partial withdrawal from the territories. The Likud government (1977-1984, 1996-1999) maintained that its acceptance of full withdrawal from the Sinai as part of the Camp David agreements and the Egyptian-Israeli peace treaty fulfilled the Israeli pledge to withdraw from occupied territory.

The governments formed in November 1988 and June 1990, led by Prime Minister Shamir, rejected the territory-for-peace formula of U.N. Resolution 242, and insisted that Israel would retain the territory between the Mediterranean Sea and the Jordan River, a statement that appeared to preclude any negotiations. The Labor government that won the June 1992 election accepted the principles of exchanging land-for-peace and withdrawing from some of the occupied territories. Prime Minister Netanyahu's Likud government, elected in May 1996, completed the withdrawals scheduled in the September 1995 agreement but appeared reluctant to accept further withdrawals. The Labor government elected in May 1999 completed the Wye Agreement withdrawals and unsuccessfully negotiated further withdrawals for the permanent status agreement prior to the February 6, 2001 election.

On May 23, 2000, Israel withdrew its armed forces from the ten-mile wide "security zone" in southern Lebanon, fulfilling a promise made by Prime Minister Barak during the 1999 election campaign. The United States had maintained that all foreign forces should withdraw from Lebanon.

**The Security Wall.** Prime Minister Ehud Barak endorsed building a fence to separate the West Bank from Israel similar to the fence that already separates Israel from the Gaza Strip. Israel began constructing the 400 kilometer West Bank fence in June 2002 at an estimated cost of \$200 million. Settlers and conservative Israelis oppose the fence because they fear it will become a permanent boundary and they intend to annex all or most of the West Bank. But they favor the protection the fence is supposed to offer. Israeli liberals favor the fence as a permanent boundary and as protection against terrorist incursions. President Bush said the wall was a "problem."<sup>1</sup> (See CRS Report RS21564, *Israel's Security Fences, Separating Israel from the Palestinians*, July 7, 2003.)

**The West Bank and the Gaza Strip.** U.S. policy, beginning in 1982, supported neither an independent Palestinian state nor Israeli sovereignty or control of the occupied territories. Instead, the Reagan Administration preferred a form of "association" between the West Bank/Gaza areas and Jordan. The Palestinians at Madrid accepted confederation between a Palestinian entity composed of the occupied territories and the state of Jordan, a position accepted by Israel's Labor government and by the United States.

After completing the withdrawals called for in the October 1998 Wye Agreement, the Palestinians controlled about 18% of the West Bank, the Israelis and Palestinians shared control over about 22%, and Israel controlled the remaining 60%. According to press accounts from the July 2000 Camp David summit, Israel offered to withdraw from more than 90% of the West Bank and all of the Gaza Strip as part of the permanent status negotiations.

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<sup>1</sup> Bumiller, Elizabeth, "Bush Stresses Policy Plans With Powell, Not the Future," *New York Times*, Aug. 7, 2003. Lester, Will, "Joint Appearance by Bush, Powell Intended to Send Signal," *Associated Press*, Aug. 7, 2003.



**The Golan Heights.** Although the United States considers the Golan Heights to be occupied territory subject to negotiation and Israeli withdrawal, it sympathized with the Israeli concern that Syrian control of the Heights prior to 1967 provided Syria with a tactical and strategic advantage used to threaten Israel's security. The Begin and Shamir governments rejected any withdrawal from Golan; on December 14, 1981, the Knesset passed legislation applying Israeli "law, jurisdiction, and administration" to the Golan Heights, in effect, annexing the territory. The United States disagreed with the Israeli move as a violation of international law (Article 47 of the Geneva Convention which forbids acquisition of territory by force, and U.N. Security Council Resolution 242), and as a violation of the spirit of the Camp David peace process. According to recent Israeli press reports, Prime Ministers Rabin and Netanyahu agreed in secret to withdraw from most of the Golan Heights. The press reports say that Syria wants full Israeli withdrawal, but Israel wants a staged withdrawal from most but not all of the territory.

An unresolved issue concerns possible peacekeeping forces to be stationed on the Golan Heights between the Israeli and Syrian forces after the two countries reach an agreement. If the parties request such an international presence, should the United States participate? Some argue that the United States should contribute forces in order to further the peace effort, but others argue that U.S. forces would be targets for terrorists.

**Jerusalem.** Until the Camp David meetings of July 2000, Israel did not consider Jerusalem to be occupied territory, claimed that it would not negotiate the status of the city, and rejected Arab or any other sovereignty in Jerusalem. Article V, Sections 2 and 3 of the Declaration of Principles (September 13, 1993) states that Jerusalem is a subject in the permanent status negotiations that began on May 5, 1996, and are continuing. At the July 2000 Camp David meetings, Israel offered the Palestinians control over the Muslim and Christian holy sites, but the Palestinians sought full sovereignty over the Arab Muslim/Christian areas of the old city.

U.N. resolutions call for the internationalization of the city of Jerusalem, and condemn Israel's June 1967 annexation of the eastern, or Arab, portion of the city conquered by the Israelis in the 1967 war. The United States abides by international opinion on the international status of the city. The U.S. embassy is in Tel Aviv, not Jerusalem, for that reason, although most members of Congress urge the Administration to recognize Jerusalem as Israel's capital, and to move the Embassy. President Reagan reiterated the 1967 U.S. position on September 1, 1982: "we remain convinced that Jerusalem must remain undivided, but its final status should be decided through negotiations." Former President Bush, on March 3, 1990, reminded Israel that the United States believed that Jerusalem was part of the occupied territory and that he opposed Jewish settlements in east Jerusalem. On July 27, 2000, President Clinton said he favored moving the embassy to Jerusalem and would review the decision by the end of the year but made no changes before leaving office on January 20, 2001.

P.L. 104-45 (S. 1322, S. 770, and H.R. 1595, passed the Senate and House on October 24, 1995, and became law on November 8, 1995) states that it is U.S. policy that the U.S. embassy should be established in Jerusalem by the end of May 1999. Both President Clinton and President Bush exercised a series of waivers that delayed the embassy move, most recently in Presidential Determination 2002-23, June 17, 2002. (Also, see CRS Report RS20339, *Jerusalem: The U.S. Embassy and P.L. 104-45.*)

A section was included in authorization and appropriations bills in 1997, 1998, and 1999, that included language stating that Jerusalem must be listed as the capital of Israel in U.S. government publications, appropriating funds for a U.S. embassy to be built in Jerusalem, making the U.S. Consul-General in Jerusalem subject to the authority of the U.S. Ambassador in Tel Aviv, and allowing persons born in Jerusalem to name Israel as their birthplace on U.S. passports. The section does not appear in the FY2000 or FY2001 foreign operations appropriations bills but did appear in P.L. 107-228 (H.R. 1646), the foreign relations authorization bill, minus the funding for constructing a new embassy. On September 30, 2002, President Bush said the Jerusalem provisions were advisory only, a position at odds with many in Congress who believed the provisions were binding.

## Israeli Settlements in the Occupied Territories

According to the State Department, the estimated population of occupied territories is as follows:

**Table 1. State Department Estimates of Population**

Occupied Territory	No. of Israeli Settlements	Jewish Population	Arab Population
Gaza Strip	15	3,000	589,000
Golan Heights	30	12,000	14,700
West Bank	150	90,000	895,000
East Jerusalem	12	120,000	140,000

Since the first Israeli settlements were created in the occupied territories following the June 1967 war, the United States has held that such settlements are illegal under international law (Article 49 of the Fourth Geneva Convention states that an occupying power may not transfer its civilian population into occupied territories) and are an “obstacle to peace” because their presence implies an Israeli claim of sovereignty that appears to rule out a willingness to negotiate. On December 16, 1996, President Clinton said that the settlements were “absolutely” obstacles to peace. All Arab countries and a majority of the international community, as reflected in numerous U.N. votes, oppose settlements. Some Israelis maintain that Jordan’s claim to the West Bank was illegal and that Israel is not a belligerent occupant and may claim the territory as its own. Under the Declaration of Principles signed on September 13, 1993, Israel will continue to provide security for its settlements until the parties agree to a final status for the territories. The press reported that about 40,000 Israeli settlers would be uprooted under the Israeli plan offered at the Camp David summit in July 2000.

## Palestinians

In September 1975, then-Secretary of State Kissinger agreed to an Israeli request that the United States would not recognize or negotiate with the PLO until the PLO recognized

Israel and accepted U.N. Resolution 242 (the territory for peace principle). In 1984, Congress codified the provision into law, adding a new condition that the PLO must renounce terrorism. After a series of PLO statements and clarifications, the U.S. Administration said on December 14, 1988, that PLO head Yasir Arafat had met the U.S. conditions for a dialogue. Secretary Shultz authorized Robert Pelletreau, U.S. Ambassador to Tunisia, as the sole channel for the dialogue. But, the dialogue was suspended by the George H.W. Bush Administration on June 20, 1990, after PLO leader Arafat refused to condemn in unequivocal terms a thwarted seaborne terrorist attack against Israel. On September 10, 1993, the same day that Israel and the PLO exchanged letters of mutual recognition, the United States announced a resumption of the U.S.-PLO dialogue.

Another Palestinian issue affecting U.S.-Israeli relations is the human rights treatment of Palestinians under Israeli control. U.S. officials have protested Israel's policies of deporting Palestinians suspected of opposing Israeli occupation, detention without charges, beating Palestinians, communal punishment such as curfews against entire towns, destruction or sealing of houses of families of leaders, the closing of schools, assassinations, and other actions. The annual State Department human rights report has been one vehicle for the U.S. government to express publicly its concerns about Israeli treatment of the Palestinians.

## **Strategic Cooperation**

Although Israel frequently is referred to as an ally of the United States, technically Israel may not fall under the definition of "ally" because there is no mutual defense agreement between the two countries. The Reagan Administration considered Israel a "strategic asset" because of Israel's opposition to the Soviet Union. Israel's Defense Minister Ariel Sharon and Secretary of Defense Caspar Weinberger signed a memorandum of understanding (MOU) on November 30, 1981, establishing a framework for continued consultation and cooperation to enhance the national security of both countries and confront the Soviet threat. (On December 18, 1981, the State Department announced the "suspension" of the MOU in reaction to Israel's annexing the Syrian Golan Heights.)

In November 1983, Israel and the United States renewed the dialogue on bilateral strategic cooperation, and formed a joint political-military committee to implement most of the 1981 MOU provisions. Joint air and sea military exercises began in June 1984, and the United States began constructing 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 ("Star Wars") research. Under SDI, Israel is developing the "Arrow" anti-ballistic missile with a U.S. contribution of more than \$1 billion through FY2003.

A 1988 U.S.-Israel agreement designated Israel a "major non-NATO ally of the United States," which gives Israel preferential treatment in bidding for DOD contracts and lower prices on U.S. defense equipment. Israel sought the non-NATO status. On September 8, 1989, Israeli Defense Minister Rabin and U.S. Secretary of Defense Cheney signed an agreement providing for Israel "leasing" U.S. equipment and the pre-positioning of up to \$100 million worth of U.S. military supplies in Israel.

The dramatic changes in eastern Europe beginning in late 1989 eliminated the Soviet bloc threat to the Middle East, and Israel no longer has a perceived role in stopping a Soviet

advance into the region. The changed conditions may challenge the premise that Israel is a U.S. strategic ally. The August 1990 crisis over the Iraqi invasion of Kuwait raised other questions about Israel's strategic value to the United States. According to press accounts, the President George H.W. Bush asked the Israelis to keep a low profile, and did not ask for use of Israel's military, medical, and storage facilities for the deployment of U.S. forces in Saudi Arabia. But, Israel used the Iraq-Kuwait crisis to seek additional military assistance. Congress added \$700 million in surplus military equipment, an expansion of the military stockpile located in Israel from \$100 million to \$200 million, some free arms (Patriot missiles), and early disbursement of military aid so Israel can collect interest from investing the \$1.8 billion (P.L. 101-513 of November 5, 1990). In March 1991, Congress provided Israel \$650 million in emergency ESF grants to pay for damage and other costs from the Persian Gulf war (P.L. 102-21).

Following the March 15, 1993 White House meeting between President Clinton and Prime Minister Rabin, a White House spokesman said the two leaders agreed to upgrade the U.S.-Israel strategic dialogue.

## Technology Transfers to China

The *Washington Times* reported on March 12, 1992, that the Administration of President George H.W. Bush was investigating if Israel transferred U.S. Patriot missile technology to China without U.S. approval. The *Wall Street Journal* reported the next day that the State Department Inspector-General and U.S. government intelligence agencies had been investigating unauthorized Israeli technology transfers to China, South Africa, Ethiopia, Chile, and other countries. Israeli leaders denied that Israel transferred U.S. technology without U.S. permission, and denied violating U.S.-Israeli agreements on weapons security and transfers. The State Department announced on April 2 that a team that visited Israel on March 21 found no evidence of an unauthorized transfer of Patriot technology to China. But, an Inspector-General's report released the same day said Israel did transfer other equipment and technology to other countries without proper U.S. authorization. The story resurfaced on October 11, 1993, when NBC news reported that Israel sold billion of dollars worth of military equipment, including U.S. sophisticated technology, to China, and reappeared again in October 1995 when it was reported that China had Lavi technology (Israel built a prototype Lavi aircraft with U.S. money and technology).

Israel signed a contract with China in 1996 to deliver one Airborne Early Warning and Command and Control (AEW) radar system, mounted on an Ilyushin-76, at a cost of \$250 million. The plane's radar array can monitor up to a reported 200 targets simultaneously, at a range of 250 miles (400 km), as well as target surface installations, and gather communications intelligence. China had an option to order three to seven more of the AEW. Delivery of the first plane was scheduled for October 2001. The United States complained that delivery of the AEW to China could endanger Taiwanese and U.S. aircraft if it became necessary to defend Taiwan from a Chinese attack, and that the AEW in Chinese hands would create an imbalance in the Asian military picture. Israeli officials stated that they had informed the United States of the deal in 1996, and had received no complaints then, that the AEW was a defensive system (similar to the AWACS the United States sold Saudi Arabia without heeding Israeli concerns), that some other country, notably Britain or France, would sell AEW to China if Israel did not, and that Israel needed the income from the sale. On June 20, 2000, the Foreign Operations Subcommittee of the House Appropriations Committee

voted nine to six to defeat an amendment that would have delayed \$250 million in military aid to Israel if Israel did not agree to cancel the sale to China. (See CRS Report RS20583, *Israel's Sale of Airborne Early Warning Aircraft to China*, May 18, 2000.) Reuters reported on May 22, 2003, that the United States dropped its objections to an Israeli sale of the Phalcon AEW to India for \$1 billion. According to the report, the United States objected to the 2002 sale because of the friction between India and Pakistan.

## **Loan Guarantees**

In late 1990, Israel proposed that the United States government provide \$10 billion in loan guarantees over 5 years to finance the housing, infrastructure, and jobs needed to settle in Israel an anticipated 1 million immigrants from the former Soviet Union. Under the proposal, Israel would borrow \$10 billion from U.S. commercial institutions, and the U.S. government would underwrite the loans, agreeing to pay the commercial lenders if Israel defaulted. In September 1991, President George H.W. Bush asked that Congress delay consideration of the Israeli request until January 1992, so that the Soviet refugee issue would not interfere with Secretary of State Baker's attempt to arrange an Arab-Israeli peace conference. In February 1992, Secretary of State Baker told Congress that the Administration would approve the loans only if Israel agreed to stop building or expanding settlements in the occupied territories.

Negotiations among Israel, the White House, and the Senate Appropriations Committee failed to find compromises on the conditions; the Israeli government refused to stop settlement activity, Congress rejected full White House discretion over the funds and conditions, and the White House insisted on Israeli promises to stop settlement activity in the occupied territories. Prime Minister Rabin's announcement of a freeze on new housing on July 13 apparently met the Bush Administration conditions for the loan guarantees. The President and Prime Minister Rabin announced on August 12, 1992, that the United States would support loan guarantees for Israel. The loan guarantees were approved under Title VI, P.L. 102-391, (H.R. 5368) on October 6, 1992. The last tranche of the \$10 billion was made available in October 1996 (for FY1997), but Israel has not drawn the whole amount available because the number of immigrants arriving from the former Soviet Union has decreased. The loan guarantees are being used for other infrastructure projects.

The press reported that Prime Minister Sharon asked for \$8 billion in new loan guarantees during his October 2002 meeting with President Bush. The funds, and an additional \$4 billion in military aid, would be used for preparations for the war with Iraq. President Bush made a formal request to Congress on March 25, 2003, seeking \$1 billion in military aid and \$9 billion in loan guarantees, the amounts included in the supplemental appropriations, P.L. 108-11.

## **U.S. Assistance to Israel**

U.S. aid to Israel was limited to economic development assistance until 1962, when the first, small military loans were made. Military "grants" began in 1974 when the United States waived repayment of part of a military loan, a practice that has continued through FY2002. Economic assistance earmarked for specific development projects or commodity purchases was dropped in 1975 when direct loans and cash grants for general budgetary purposes began. Since the mid-1980s, total annual economic and military aid to Israel has

averaged \$3.0 billion-\$3.5 billion. (For more detailed information on aid to Israel, see CRS Issue Brief IB85066, *Israel; U.S. Foreign Assistance*.) Israel's need for American aid, both the direct financial transfers to meet Israel's budgetary requirements and Israel's access to American military hardware, generally is not challenged either in Israel or the United States. The two nations do not always agree on the levels of aid or on the U.S. restriction against using U.S. foreign aid in the occupied territories.

Israeli, congressional, and Administration officials began discussions in January 1998, to reduce the U.S. \$1.2 billion in economic assistance to Israel to zero over ten years, and to increase U.S. military aid to Israel from \$1.8 billion to \$2.4 billion per year. P.L. 105-277, the omnibus appropriations bill signed into law on October 21, 1998, cut Israel's economic aid from \$1.2 billion to \$1.08 billion, and increased Israel's military aid from \$1.8 billion to \$1.86 billion for FY1999. Since then, economic aid to Israel has dropped by \$120 million and military aid has increased by \$60 million each fiscal year. In addition, Israel received \$1.2 billion in military grants in FY2000 for implementing the Wye Agreement.

On November 14, 2000, President Clinton requested an emergency supplemental appropriation of \$800 million in military grants for Israel, \$450 million of which would be provided in FY2001 and \$350 million in FY2002. The 106<sup>th</sup> Congress did not act on the request before adjournment. The supplemental appropriations bill for FY2002, H.R. 4775, would have provided \$200 million for Israel for anti-terror activities, but President Bush held up disbursing part of the funds, including the Israeli funds, because Congress had acted against the President's advice on unrelated portions of the bill.

The United States also provides indirect assistance to Israel by helping the Israeli economy. For example, in 1979, Congress added two sections to the Export Administration Act that benefitted Israel although Israel was not mentioned by name. Section 8 prohibits American companies and individuals from cooperating with trade boycotts against nations friendly to the United States. The legislation was aimed at the Arab League boycott of Israel, and has been repeated in subsequent foreign operations appropriations bills. Section 7(d)(3) of the 1979 Export Administration Act authorized the President to sell American-produced oil to nations with which the United States had signed bilateral oil supply agreements prior to June 25, 1979, which is applied only to Israel. Another source of U.S. support to the Israeli economy is through the establishment of a free trade area (FTA), agreed in 1983. The FTA was formally approved in May 1985, and removes virtually all trade barriers in bilateral commerce.

On June 17, 1997, the White House announced that the United States, Israel, and Egypt had agreed to divert \$50 million in ESF aid from Israel and \$50 million in ESF from Egypt to create a \$100 million ESF fund for Jordan to support Jordan's efforts in its peace with Israel. Israel returned \$50 million to the United States for the Jordanian account (Israel received its \$1.2 billion ESF in the first 30 days of the fiscal year, according to law). Egypt and Israel agreed to divert \$50 million each for Jordan for FY1998 as well.

**Military Assistance.** The United States and Israel have had significant disagreements over three aspects of military assistance. First, the 1952 Mutual Defense Assistance Agreement and subsequent arms agreements between Israel and the United States limit the use of American military equipment to defense only. The Arms Export Control Act states

that the United States may stop aid to countries which use U.S. military assistance for purposes other than “legitimate self defense.”

On four occasions the Secretary of State has stated in writing to Congress that Israel “may have violated” the provisions of the Arms Export Control Act and the Mutual Defense Assistance Agreement — on April 5, 1978, after Israel invaded Lebanon, on August 6, 1979, after a series of Israeli raids into south Lebanon, on June 10, 1981, after Israel bombed the Iraqi nuclear reactor, and in a “secret” letter to Congress in July 1982, after the Israeli invasion of Lebanon. On one occasion — after the July 4, 1976 Israeli attack on the Entebbe air port — the United States formally found that Israel used U.S. arms for “legitimate self defense.” There were unconfirmed reports in February 2001 that the United States was investigating if Israel misused U.S. military equipment during the 2000-2001 “Intifadah,” specifically by using Apache helicopters to assassinate Palestinians suspected of terrorism.

The second U.S.-Israeli disagreement over U.S. assistance involves the U.S. restriction against transferring U.S. arms to third countries without U.S. permission. Controversy has arisen over Israeli sales of spare parts to Iran and of larger items to Argentina. The United States, according to reports, vetoed the Israeli sale of Kfirs and Mysteres with General Electric J-79 jet engines to Latin American countries because the United States was trying to avoid an arms race in the region. Israel has asked that the United States relax its restriction because Israel gains revenues and friends from its arms sales. (See section on Technology Transfer to China, above.)

The third Israeli-U.S. disagreement over U.S. arms assistance involves U.S. arms transfers to Arab countries. Israel protests U.S. arms transfers to Arab states that Israel believes threaten Israel’s security, and many in Congress have worked to disapprove Administration arms proposals for Arab countries. In 1984, congressional opposition to a proposed sale of Stinger missiles to Jordan resulted in the Administration’s withdrawal of the sale. Israel opposed the proposal sent to Congress on October 21, 1985, to sell Jordan 40 aircraft, Hawk missiles, Stinger missiles, and Bradley fighting vehicles. The sale was postponed indefinitely on February 3, 1986. Israel and its supporters in Congress opposed the President’s March 1986 proposal to sell missiles to Saudi Arabia, but the sale was approved when Congress failed to override the President’s veto of the bill to disapprove the sale.

After the United States announced in mid-August 1990 that it was considering additional arms transfers to Saudi Arabia in response to Iraqi threats, Israel requested an increase in military assistance (from \$1.8 billion to \$2.5 billion, according to the press), free weapons (Patriot missiles, F-15 aircraft, Apache helicopters, etc.), access to U.S. satellite intelligence data, and an increase in the U.S. weapons stockpile in Israel to which the Israelis would have access. Congress added provisions to the foreign assistance appropriations bill to provide Israel with \$700 million in equipment to be delivered from surplus stocks in Europe, and an increase in the strategic stockpile in Israel from \$100 million to \$200 million. Israel also received free Patriot missiles during the Persian Gulf war.

## Terrorism and Other Issues

In the late 1980s, there were some differences between Israel and United States over the handling of terrorist incidents, despite an overall positive record of cooperation and coordination in working against terrorism. The Reagan Administration had considered Israel a model for taking firm measures to prevent incidents, and to retaliate after incidents occurred. On one occasion, after the Israelis bombed PLO headquarters outside Tunis in 1985, the Administration initially praised the action as a blow against terrorism, although it later tempered that reaction by expressions of concern for the territorial integrity of Tunisia, a long-standing U.S. friend. In the more immediate Lebanon context, Israel and the United States have sometimes faced a common enemy, the radicalized Shias of southern Lebanon. In July 1989, Israel kidnapped Lebanese Hizballah religious leader Shaykh Abd al-Karim Obayd, reportedly involved in the kidnapping of three Israeli soldiers. Hizballah responded by threatening to kill captured U.N. official and U.S. citizen Lt. Col. William Higgins unless Obayd was released. On July 31, news agencies reported Higgins' execution. Higgins' body was returned to the United States in December 1991.

**The Espionage Affairs.** In 1985, U.S.-Israeli relations were rocked by two spy cases. Richard Smyth was indicted in California for illegally exporting 800 Krytons to an Israeli company. Krytons are high speed electronic switches that can be used to detonate nuclear weapons. Israel claimed that it was not aware of needed export licenses for the devices. Smyth jumped bail in 1985 but was arrested by Spanish authorities in July 2001. Smyth was extradited to the United States in November 2001 and will stand trial on 30 counts of violating the Arms Export Control Act and filing false statements. On November 21, 1985, Jonathan Pollard, a U.S. naval intelligence employee, and his wife Ann Pollard were charged with selling classified documents to Israel for \$2,500 per month over an 18-month period. The Israeli government said the spy network, headed by former Israeli intelligence officer Raphael Eitan, was a renegade operation. In March 1987, Pollard was sentenced to life in prison, and his wife to two consecutive 5-year terms. Four Israelis were also indicted, including Israeli Air Force Col. Aviem Sella. Israel promoted both Sella and Eitan, although Sella's command of a major air base and promotion were rescinded after negative U.S. reactions. Israelis continue to complain that Pollard received an excessively harsh sentence. Ann Pollard was released in 1990, and moved to Israel where she divorced Jonathan Pollard. Pollard was granted Israeli citizenship in January 1996. Israel sought Pollard's release as part of the 1998 Wye negotiations with the Palestinians. President Clinton took that matter under advisement. (See CRS Report RS20001, *Jonathan Pollard: Background and Considerations for Presidential Clemency*, December 21, 1998.)

In addition to the Smyth and Pollard cases, U.S. Customs agents raided 3 U.S. companies on December 12, 1985, to seize materials describing a metallurgical process for tank guns that were being transferred illegally to Israel. In another case, 3 Israelis were arrested on April 22, 1986, for conspiring to sell arms to Iran. On May 15, 1986, 2 Israelis were arrested in New York on another weapons selling scheme. On July 8, 1986, U.S. Customs agents searched 3 U.S. companies for information about a plan to transfer technical information for cluster bombs to Israel. An Illinois company said on August 8, 1986, that Israelis tried to steal data on aerial reconnaissance cameras. Israel denied any connection with any of these cases. In February 1997, an engineer at a military testing facility in Michigan admitted that he "inadvertently" gave classified materials to Israel over a ten-year



period. Press reports in early May 2000 said that Israeli intelligence had tapped into White House and State Department communications, but a later FBI investigation cleared Israel.

**Iran Arms Affair.** Israel was implicated in the Iran arms affairs in November 1986 by reports that the proposal to trade U.S. arms for hostages in Lebanon originated with Israeli Foreign Ministry official David Kimche, that Israel facilitated the U.S.-Iranian secret negotiations, that Israel was the transit point for at least one of the shipments to Iran, and that Israel may have provided weapons to Iran at U.S. request. These issues were not the subject of extended U.S. debate during the Iran-contra hearings, although analysis of the Israeli role has been offered by some Israeli journalists and scholars.

## Role of Congress

Most U.S. aid to Israel is earmarked, recurring aid, such as economic support funds, foreign military sales grants, or funds for settling Soviet Jews. Other annual aid programs provide smaller amounts of non earmarked assistance to Israel, such as American schools and hospitals abroad. Congress has funded special programs, such as the emergency aid after the 1973 war, the FY1985 supplemental \$1.5 billion in ESF grants, or \$650 million in ESF grants for war damage during the 1991 Persian Gulf war. In May 1990, Congress approved a \$400 million housing loan guarantee for Israel to be used for housing for Soviet Jewish immigrants, and in October 1992 (Title VI, P.L. 102-391), approved \$10 billion in loan guarantees for housing, jobs, and infrastructure for Soviet Jews. In November 1999, Congress approved an Israeli request for \$1.2 billion in FY2000 to fund the implementation of the October 23, 1998 Wye agreement.

Between September 1991 and September 1992, Senate Appropriations Committee Members negotiated with the Administration over the terms of loan guarantees for Israel but were unable to arrive at an acceptable compromise. The Administration wanted Israel to freeze all occupied territory settlement activity before the United States would guarantee the loans. Congress sought a compromise that would allow the U.S. to provide some loan guarantees and leave discretion for future guarantees in the President's hands. In the end, Israel offered a partial freeze on housing starts in the occupied territories, which the Administration accepted, and Congress approved the President's proposal for the loan guarantees.

Congress has a role in approving or disapproving Administration proposals for arms sales to Arab countries. In general, Congress fears that U.S. weapons provided for Arab states will pose a threat to Israel. Members of Congress have written letters to the President opposing proposed arms sales to Arab states, and have used legislative means to block some sales. Informal consultations between Congress and the Administration have led to the withdrawal of some proposed arms sales before Congress voted its disapproval.

Congress included several provisions in the FY1991 foreign assistance legislation (P.L. 101-513) to benefit Israel, such as allowing Israel to invest FMS funds and keep the proceeds, giving Israel \$700 million worth of defense equipment to be withdrawn from Europe, or doubling the U.S. military stockpile in Israel to \$200 million. Israel also received 2 Patriot anti-missile fire units free under the President's emergency authority in December 1990. In 1996 Congress authorized an additional \$50 million at the President's request for

Israel's anti-terrorist program. According to one Israeli source (*Jerusalem Report*, October 17, 1996), there was \$109 million for various Israeli projects in the FY1997 U.S. defense budget.

The House of Representatives voted 365 to 30 to pass H.Con.Res. 426 on October 25, 2000, the resolution expresses solidarity with Israel and condemns Palestinian leaders for encouraging violence in the Palestinian-Israeli confrontation of September/October 2000.