

CRS Issue Brief for Congress

Received through the CRS Web

Israeli-United States Relations

Updated July 9, 2004

Clyde R. Mark
Foreign Affairs, Defense, and Trade Division

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE 09 JUL 2004		2. REPORT TYPE		3. DATES COVERED 00-00-2004 to 00-00-2004	
4. TITLE AND SUBTITLE Israeli-United States Relations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service, The Library of Congress, 101 Independence Avenue, SE, Washington, DC, 20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

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SUMMARY

Israeli-U.S. relations are an important factor in U.S. policy in the Middle East, and Congress has placed considerable emphasis 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 aid 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.

The United States has provided on average \$3 billion in foreign aid to Israel each year since 1985. Under an Israeli-U.S. agreement, economic assistance is being phased out and military aid is being increased. H.R. 2800 and S. 1426, the FY2004 foreign operations appropriations bills will provide Israel with \$2.16 billion in military aid and \$480 million in economic assistance.

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 RS21564, *Israel's Security Fences, Separating Israel from the Palestinians*.



MOST RECENT DEVELOPMENTS

According to the July 9 edition of Haaretz, the International Court of Justice voted 14 to 1 that the Israeli wall is illegal under international law. Israeli leaders have said they will not honor the court's decision, which may lead to possible resolutions against Israel in the U.N. General Assembly and Security Council.

Prime Minister Sharon announced on July 8 that he would meet with Labor Party head Shimon Peres on July 11 to discuss forming a new coalition government. Likud's 40 seats, Labor's 19 seats, and Shinui's 15 seats would give the new coalition 74 seats, more than the 61 needed to avoid a no confidence vote. But, observers speculated that some members of Sharon's Likud party and some Labor members may not join a coalition with their traditional rivals. Later, Sharon said he would continue to work with Finance Minister and former Prime Minister Benjamin Netanyahu in what may have been an attempt to end their feud and pull Likud together before the new coalition was formed. Meanwhile, the Shinui Party may face problems after it was learned that Sharon fired Shinui Joseph Peritzky from his Infrastructure Ministry for plotting against a rival.

The Associated Press reported on July 8, 2004, that Prime Minister Sharon said Israel was ready to discuss a nuclear-free Middle East as part of a peace settlement. The statement followed U.N. nuclear agency head Muhammad al-Baradai's three-day visit to Israel. In the past, Israel has said it would not be the first to introduce nuclear weapons to the region. It is widely believed that Israel has more than 200 nuclear weapons.

Israeli officials refused to meet representatives of the "Quartet" before the Israelis had agreed on Sharon's Gaza withdrawal proposal. (AP, July 8, 2004)

According to press reports, Secretary of State Colin Powell told Israeli Foreign Minister Silvan Shalom that the United States was disappointed in the rate at which the Israelis were dismantling outposts in the occupied territories. (Outposts often are precursors to new settlements. Israel promised to remove all outposts. AP, July 6, 2004)

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 in Palestine.

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 Israel has disagreed with the U.S. view of its role as an even-handed peace broker among the parties to Arab-Israeli disputes. Most Israelis and Israeli supporters have wanted the United States to favor only Israeli positions. U.S. arms transfers to Arab countries have been striking examples of friction in Israeli-U.S. relations because they underscore the difference in attitudes toward Arab countries and 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 peace 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. 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 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 over 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 support 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 1986,¹ and 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 an Israeli plan to hold elections for a Palestinian peace conference delegation in the summer of 1989 and over the need for an investigation of a 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, then-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 U.S. praise for its restraint.

Then President Bush and Secretary Baker were instrumental in convening the Madrid peace conference in October 1991 and in persuading all parties to engage in subsequent peace negotiations. It was reported widely that the Bush Administration did not share an amicable relationship with the government of Prime Minister Yitzhak Shamir. 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.

¹ Jonathan Pollard was arrested for passing classified information to Israel. See CRS Report RS20001: *Jonathan Pollard: Background and Consideration for Presidential Clemency*.

Clinton Administration (1993-2000)

Israel and the PLO exchanged letters of mutual recognition on September 10 and signed the Declaration of Principles (a framework for peace negotiations) 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 Israeli-Palestinian 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.

President Clinton and Prime Minister Ehud Barak, elected Prime Minister on May 17, 1999, 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 in the search for peace. In a January 11, 2001, interview, the President implied that his attempts to arrange a peace had failed (which he blamed on Arafat) and that the task would carry over to the new Bush Administration.

Bush Administration (2001 -)

President George W. Bush and Prime Minister Sharon have established good relations in their several meetings although in the past have disagreed on a few issues. For example, 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 April 14, 2004, White House meeting, President Bush agreed with Prime Minister Sharon's plan for a unilateral withdrawal from Gaza and some West Bank areas, Israel's retaining settlements in the West Bank, Israel's position that the Palestinian refugees did not have the "right of return," and Israel's construction of the wall between Palestinian areas and Israeli areas.

Issues in U.S.-Israeli Relations

At their April 14, 2004, meeting at the White House, President Bush told Prime Minister Sharon that the United States approved the Prime Minister's unilateral decision to withdraw from all Gaza and some West Bank settlements. In the past, the United States had opposed unilateral decisions and had endorsed negotiated resolutions of the Palestine problem. The President also said that the Palestinians must meet their obligations under the "road map," but the President did not say that the Israelis must meet their obligations. President Bush said the Israeli wall/fence under construction in the West Bank was a security, not political barrier, was temporary, not permanent, and would not prejudice the final borders between Israel and a Palestinian state. Previously, the President said the wall/fence was a "problem," and the United States reduced the loan guarantees available to Israel in part because of the barrier.² President Bush said the Palestinian refugees should be resettled in a Palestinian state and not in Israel, thereby removing refugees from the issues to be negotiated and opposing the "right of return" incorporated in U.N. Resolution 194. And the President said the permanent borders should reflect the realities on the ground, suggesting that Israel would not withdraw from all the territories occupied in the 1967 war and would maintain sovereignty over the lands now occupied by Israeli settlements. In the past, the United States favored only minor adjustments of the pre-1967 boundaries, and other Presidents have said the settlements were illegal under international law or were obstacles to peace.

On May 4, 2004, Secretary of State Colin Powell joined the European, Russian, and United Nations representatives of the "Quartet" to issue a statement that appeared to refute some of the points made in the Bush-Sharon April 14 statement. The Quartet statement said the four parties endorsed the Israeli intention to withdraw from occupied territory, which supported the Sharon position. But then the Quartet emphasized the need to negotiate borders and the Palestinian refugees status, which reversed the Sharon-Bush statement, and the Quartet called for a complete Israeli withdrawal without sustained Israeli control over sea and air routes to Gaza. The Quartet also called for an "empowered" Palestinian prime minister, an apparent slap at Arafat's control over the Palestinian negotiators.

On May 6, President Bush told the press after a White House meeting with King Abdullah of Jordan that the United States approved of Israel's plan to withdraw from Gaza and some West Bank settlements and that all other issues should be negotiated. The statement appeared to reverse the April 14 position that the United States approve of Israel's unilateral decisions and that some issues, such refugees and borders, were to be decided by Israel without negotiations.

Peace Process

On June 24, 2002, President Bush proposed a three phase approach to peace, including a series of Israeli and Palestinian steps to be taken over a three-year period. The "road map"

² Kessler, Glenn, "Bush Criticizes Israeli Fence," *Washington Post*, July 26, 2003. "Powell: Israel Security Fence Could Impede Peace Process," *DowJones Newswire*, August 5, 2003. On November 26, 2004, the United States announced that the \$3 billion loan guarantee was to be reduced by \$289 million because of Israel's construction in the West Bank, including the wall/fence.

was expanded and refined by the “quartet” of the European Union, Russia, the United Nations, and the United States and was made public on April 30, 2003. (For a summary of current peace talks, see CRS Issue Brief IB91137, *The Middle East Peace Talks*.)

Withdrawal from Occupied Territories. A minority of Israelis believe that the occupied territories, the West Bank, the Gaza Strip, and the Golan Heights, are part of historical Israel and should be annexed to Israel. Most Israelis believe that Israel should withdraw from most of the occupied territories, retaining only those areas with particular strategic military or historical significance. A few Israelis believe that Israel should withdraw from all of the occupied territories.

On April 14, 2004, President Bush endorsed Prime Minister Sharon’s plan for a unilateral withdrawal from the Gaza Strip and four West Bank settlements. The President also agreed with Sharon’s position that future boundaries between Israel and a Palestinian state should recognize the realities of Israeli settlements. Prior to the President’s April 2004 statement, the United States supported United Nations Security Council Resolution 242 of 1967, which states that Israel should withdraw from territories occupied in the 1967 conflict (the exchange of land for peace) and that the final borders should be negotiated and should not reflect the weight of conquest.

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 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 Madrid³ 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. In June 2002, President George Bush endorsed the formation of a Palestinian state but without defining the boundaries of the state.

After Israel completed 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.

In December 2003, Prime Minister Ariel Sharon announced that he would withdraw unilaterally from Gaza and parts of the West Bank. The implication of the Prime Minister’s plan was that Israel intended to keep most of the West Bank and would decide the future boundaries of a Palestinian entity. Although previous administrations rejected unilateral

³ Israel, Jordan, Lebanon, Syria, and a delegation of Palestinians met in Madrid on October 30, 1991, to begin bilateral and multilateral peace talks. Those talks were suspended following the Oslo agreements of September 1993.

decisions and called for negotiations, President Bush endorsed Sharon's unilateral decision on April 14, 2004.

On May 2, 2004, the Likud Party voted against Sharon's Gaza Strip withdrawal plan. Two days before a scheduled May 30 cabinet vote, Sharon announced a delay, probably because it appeared that 12 members of the 23-person cabinet would vote against the withdrawal plan. On June 4, Sharon fired the two National Union Party Ministers who opposed the withdrawal, to give him an apparent 11 to 10 margin. The Prime Minister presented another altered version that delayed all withdrawals until September 2005, and the proposal passed the cabinet on June 6 by a 14 to 7 vote.

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). The Israeli press reported that Prime Ministers Rabin and Netanyahu agreed in secret to withdraw from most of the Golan Heights. But the press also reports that Syrian officials want full Israeli withdrawal.

An unresolved issue concerns possible peacekeeping forces to be stationed on the Golan Heights between the Israeli and Syrian forces if and when 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 Principles⁴ (September 13, 1993) states that Jerusalem is a subject in the permanent status negotiations. 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 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 Congress has urged the President 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." Then President Bush, on March 3, 1990, reminded Israel that the

⁴ The Declaration of Principles provided a framework for peace talks.

United States believed that east Jerusalem was part of the occupied territory and that he opposed Jewish settlements in east Jerusalem. On July 27, 2000, then 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. President Clinton and President Bush exercised a series of waivers that delayed the embassy move. (Also, see CRS Report RS20339, *Jerusalem: The U.S. Embassy and P.L. 104-45.*)

Authorization and appropriations bills in 1997, 1998, and 1999, 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 did 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 for FY2002 and FY2003, 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.

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 a cost estimated between \$200 million and \$1 billion. Settlers and conservative Israelis oppose the fence because they fear it will become a permanent boundary that will preclude Israel annexing all or most of the West Bank. Most Israelis favor a fence as a means of protection against terrorist infiltrators. President Bush said the wall was a “problem.”⁵ In December 2003, the United Nations General Assembly voted 90 to 4 (U.S.) to seek an advisory opinion from the International Court of Justice on the legality of the wall. The world court ended three days of testimony on February 26, 2004, and is expected to render a verdict in early July 2004. On April 14, 2004, President Bush endorsed the wall. (See CRS Report RS21564, *Israel’s Security Fences, Separating Israel from the Palestinians*, July 7, 2003.)

Israeli Settlements in the Occupied Territories

Since the first Israeli settlements were created in the occupied territories following the June 1967 war, the United States has held that such settlements were 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 were an “obstacle to peace” because their presence implies an Israeli claim of sovereignty that appears to rule out a willingness to negotiate. On April 14, 2004, President Bush said peace should reflect the reality of Israeli settlements, implying that the settlements were acceptable and that

⁵ 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.

Israel's unilateral decisions regarding settlements and boundaries overrode the need for a negotiated resolution of the Palestine problem.

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 have been uprooted under the Israeli plan offered at the Camp David summit in July 2000; the plan was not implemented.

The estimated population of occupied territories is as follows:

Table 1. Estimates of Population, 2002

Occupied Territory	No. of Israeli Settlements	Jewish Population	Arab Population
Gaza Strip	21	7,500	1,275,000
Golan Heights	30	20,000	20,000
West Bank	140	201,000	2,237,000
East Jerusalem	9	170,000	200,000

Source: CIA Factbook and Report on Israeli Settlement in the Occupied Territory, published bimonthly by the Foundation for Middle East Peace, various issues.

Palestinians

In September 1975, then-Secretary of State Kissinger agreed to an Israeli request that the United States 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, 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 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, following the Iraq-Kuwait crisis, Israel sought 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 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 press reported in 1992 that the United States was investigating if Israel had transferred U.S. military technology to China and other countries without U.S. approval. The State Department announced on April 2, 1992, that a team that visited Israel in March found no evidence of an unauthorized transfer of Patriot missile technology to China, but the Inspector-General's report said Israel did transfer other equipment and technology to other countries without proper U.S. authorization. The story resurfaced in 1993 and 1995.

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, target surface installations, and gather communications intelligence. Delivery of the first plane was scheduled for October 2001, but no planes were delivered. 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.

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.) Israel canceled the sale to China. 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.

Loan Guarantees

In late 1990, Israel proposed that the United States government provide \$10 billion in loan guarantees over five 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 were used for 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 economic recovery and 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. As stipulated in the law, the Secretary of State informed Congress on September 30, 2003, that the United States was considering reducing the amount of the loan guarantees by an amount equal to the amount Israel spent on settlements in the occupied territories. On November 26, 2003, the United States announced that the first tranche of \$3 billion in loan guarantees would be reduced by \$289.5 million because of Israeli settlement activity and the continued construction of the security wall around Palestinian areas.

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 governments 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 106th 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 has provided 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 to 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 to rescue Israeli passengers on a hijacked airliner — 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 "intifadah," specifically by using Apache helicopters to assassinate Palestinians suspected of terrorism.

The second U.S.-Israeli disagreement over 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.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 K. 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, pleaded guilty in December, and was sentenced to 40 months in prison in April 2002.

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 five-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 three 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, three Israelis were arrested on April 22, 1986, for conspiring to sell arms to Iran. On May 15, 1986, two Israelis were arrested in New York on another weapons selling scheme. On July 8, 1986, U.S. Customs agents searched three 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 had "inadvertently" given 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.

Role of Congress

Most U.S. aid to Israel is earmarked, recurring aid, such as Economic Support Funds, Foreign Military Financing grants, or funds for settling Soviet Jews. Other annual aid programs provide smaller amounts of nonearmarked 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 a request for \$1.2 billion in FY2000 for Israel to fund the implementation of the October 23, 1998 Wye agreement. In 2003, Congress approved an additional \$1 billion in military funds and \$9 billion in loan guarantees for Israel.

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 U.S. 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 included several provisions in the FY1991 foreign assistance legislation (P.L. 101-513) to benefit Israel, such as allowing Israel to invest Foreign Military Financing 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.