



## New US-Israeli Military Aid Package Reflects Shifts in Relationship

*By Yousef Munayyer  
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On September 14, 2016 the United States and Israel signed a new 10-year Memorandum of Understanding (MOU) on military aid, which replaces a previous MOU set to expire in October 2017. The new agreement, covering Fiscal Years 2019 through 2028 to the tune of \$38 billion, and not the \$45 billion Israel asked for, has been characterized by US officials as the single largest pledge of bilateral military assistance - with any country - in US history. Closer inspection of the provisions of the agreement however suggests that there are important changes not easily captured by a cursory glance at the headlines in the American or Israeli media.

### **Background**

The US-Israel relationship has been historically anchored in military aid and cooperation for decades, dating back to the 1967 Arab-Israeli War and the Nixon Administration (1969-1974). While military aid was used at the time as an instrument of leverage in the Cold War competition between the US and the USSR for influence in the Middle East region, a big change occurred after the 1973 Arab-Israeli War.

Prior to that war in October 1973, the United States was more cautious with its military support for Israel. It was concerned about making Israel, whom Washington already assessed as stronger militarily than its regional adversaries combined, so strong that it would be disinclined to make peace with the Arabs. In addition, Washington was concerned that Israel, deemed by the CIA in 1974 as already in possession of a nuclear stockpile, would not sign the Non-Proliferation Treaty; and that continued US military aid would encourage the wrong perception in the region about US approval of Israel's nuclear arsenal.

However, Israel's struggles in the 1973 War brought about a reassessment on the part of the US. Stepped up Soviet support for the United Arab Republic post-1967 meant to Washington that Israel needed to be bolstered. But perhaps the most important lesson Washington took from the 1973 war was that continued Arab-Israel confrontation on the battlefield increased the risk for US-Soviet confrontation. The decade would culminate in a US-brokered peace treaty between Israel and Egypt

that was facilitated by offering military aid to both sides. Egypt would eventually break from the Soviet orbit and become a major US client and Israel would continue to receive significantly larger US military aid support despite the peace treaty with its most dangerous regional adversary. From 1979 onwards, this military aid structure became the backbone of US policy toward the region. Periodically, new agreements concerning the timing and flow of aid would be signed to facilitate longer term military budgeting and planning. Each American president would therefore be able to claim that he did more for Israel's defense than any previous administration.

### **Changing Conditions**

As the United States continued to search for an effective post-Cold War Middle East policy, its military alliance with and assistance to Israel is also being considered differently. The region today looks very different than it did in 1967 or 1973. All major players in the region, with the exception of Iran, are essentially American client states facing some serious internal challenges. Iran's nuclear ambitions have been curtailed by an unprecedented agreement and its activities are under an international microscope like never before. Israel has never been in a greater position of relative military strength in comparison to others in the region. It retains both first and second-strike nuclear capabilities, while its biggest security challenges are periodic and asymmetric. The Israeli economy is robust and Israel is in no need of handouts to purchase military hardware. The Israeli occupation, which began in 1967, continues as a key and broadly accepted component of Israel's military expenditure. While the United States declares publically its desire to see the end of Israeli occupation as part of an Israeli-Palestinian peace deal, unrelenting Israeli settlement expansion is making this objective less likely. Furthermore, US military assistance to Israel is helping sustain the occupation and prolong its lifespan.

Today, the purpose of US military aid to Israel is largely about satisfying American domestic constituencies. The reality is that Israel can purchase its own weapons from the United States and is not going to start procuring Russian arms if Washington curtailed its Foreign Military Financing (FMS) program. Indeed, several states in the region, with smaller economies than Israel, buy far more in US arms without Foreign Military Financing. But for an American administration to end Foreign Military Financing to Israel, or even to be perceived as reducing it, would be political suicide today even if the current policy no longer makes sense.

However, if one looks closely at the details of the most recent agreement, it seems as though the Obama Administration took certain steps to begin shifting this policy. Nonetheless, the overall volume of the

package allowed policymakers at the White House to retain their claims that the US still has Israel's back, and, at the same time, to avoid the domestic backlash that would have surely followed had they done otherwise. This shift fits within the [broader trend of US policy toward the region](#) where the United States is taking a step back after years of strategic mistakes while trying to get regional partners to step up, carry more of their own weight, and take on more responsibility in their roles.

### **The Devil is in the Details**

The most significant change in this new Memorandum of Understanding is the end of subsidies to the Israeli military industry through US Foreign Military Financing. By law, recipients of US Foreign Military Financing are required to spend the aid within the US military industry. Only one country received an exception to this rule - Israel. The Israelis asked for this exception as early as the Nixon Administration days but it was denied then out of concern that the US would be creating a competitor in the global arms market by boosting Israel's military industry. In fact, that is precisely what happened. The exception was ultimately granted in the 1980s and Israel was eventually able to convert approximately a quarter (26%) of US aid into Shekels and spend it domestically in Israel. Today, Israel is among the largest per capita arms exporters in the world and ranks in the top seven overall, ahead of many countries with significantly larger populations and economies.

The new agreement phases out this exception, and now requires Israel to spend all the US aid money it receives on American defense products in the United States. While the White House will seek to highlight the total overall number in the package, the end of this exception is a marked departure from previous agreements and a step in the direction of "de-exceptionalizing" the relationship with Israel. Further provisions include an end to the use of US FMF on fuel purchases and commitments by Israel not to lobby for additional funds outside the terms of the agreement. Previously, in addition to the funds covered in the agreement, Israel lobbied Congress for add-on or supplemental funding on a periodic basis amounting to hundreds of millions of dollars for such programs as Israel's missile defense systems. Between the supplemental funds and the otherwise agreed upon annual disbursements, Israel was actually receiving over the last decade an annual amount not far from the \$3.8 billion envisioned in this new 10-year agreement. Under the current agreement Israel will not be allowed to seek additional funds from Congress.

### **Signs of Things to Come?**

Taken together, while the massive bottom line number in this agreement will be used to make claims about the extent of unwavering US support for Israel, provisions in the agreement itself signal that policymakers in Washington are beginning to think about this issue differently. There was a time when Israel was receiving significant economic aid but that was phased out over time. Now this most recent MOU phases out the domestic subsidy exception. Moving forward, the case will become stronger for ending US FMF to Israel altogether. To be sure, this does not mean the US will be closing its arms markets to Israel, but rather that Israel will be buying their security needs on their own. While FMF has historically been a key component of US policy in the region, particularly with Israel and Egypt, we have already seen policy makers indicate a willingness to question this “Holy Grail” when military aid to Egypt was briefly suspended after the military coup of 2013. All of this suggests that the United States is moving in a direction where it is perceiving diverging interests with traditional allies in the region, and while it will surely continue to pursue good relations with them, doing so at any expense is increasingly looking like a thing of the past.