

Boost in U.S. Aid to Israel Vital Amid Increasing Threats

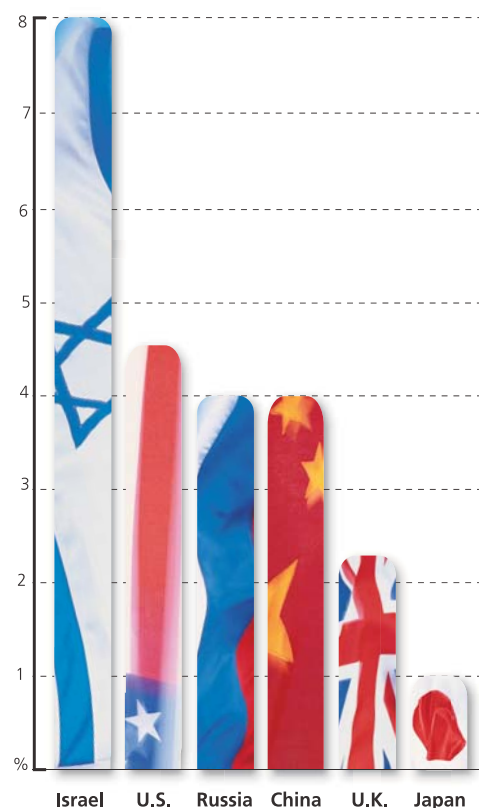
U.S. security assistance to Israel in the annual foreign aid bill is the most tangible manifestation of American support for Israel's qualitative military edge. U.S. assistance helps counter the great disparity in defense spending between Israel and potential aggressors.

Israel is finding it increasingly expensive to keep pace with military challenges ranging from an Iran seeking nuclear-weapons capability to terrorist groups like Hamas and Hizballah. Implementation of a 2007 U.S.-Israeli security agreement, which pledges to provide Israel with \$30 billion in military assistance during the next decade, is vital to ensuring that Israel can prevail over those adversaries that threaten the Jewish state and work to undermine U.S. interests in the region.

Agreement Aims to Help Israel Meet Increased Threats

American officials have recognized that while foreign aid has remained a cornerstone of the U.S.-Israel relationship for decades, in recent years the two countries have taken steps to solidify that commitment in order to ensure that the Jewish state has the means to defend itself for years to come.

Defense Spending as Percentage of GDP



Israel spends more on defense as a percentage of gross domestic product than any other major industrialized nation.

In 2007, the United States and Israel signed a 10-year Memorandum of Understanding (MOU) that calls for the U.S. to provide \$30 billion in security assistance during the next 10 years. Under the agreement, Israel is slated to receive

gradual increases in aid during the first four years before leveling off at \$3.1 billion for the remaining six years.

First U.S.-Israeli MOU Phased Out Israel's Economic Aid

The 2007 MOU was inked as the first 10-year plan signed by President Bill Clinton and Israeli Prime Minister Benjamin Netanyahu in 1998 was coming to an end. The earlier agreement eliminated U.S. economic aid while gradually increasing military assistance.

The 2007 agreement reflected the two countries' recognition of a series of new threats and changing realities in the region, including the terrorist threat from Hamas and Hizballah and the prospect of a nuclear-armed Iran.

The 2007 MOU, signed by then-Undersecretary of State Nicholas Burns and Bank of Israel Governor Stanley Fischer, notes that foreign aid enhances the "political, security and economic interests of both countries" and that the two nations "intend to continue their active dialogue on security and economic policy in existing bilateral committees."

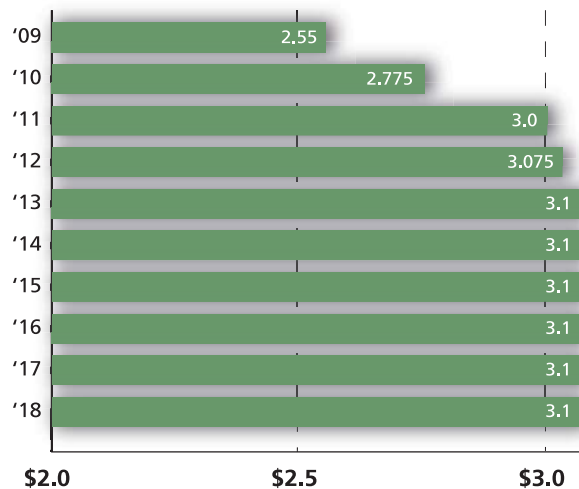
Israel is Boosting Its Own Defense Spending

A potential nuclear-armed Iran. Waves of Hamas rocket attacks from Gaza against Israeli civilians. A resurgent Hizballah armed with 40,000 rockets aimed at Israel. These are just some of the unprecedented threats that Israel, along with the United States, is facing. And they require considerably more resources and military

expenditures than the Jewish state has had to marshal in its recent history.

Spiraling defense costs are forcing Israel to spend more on defense as a percentage of gross domestic product than any other nation in the industrialized world. Israel is spending eight percent of its GDP on defense, or nearly double the percentage the United States spends. However, the actual costs to the Israeli economy are much higher, when one takes into account lost productivity and the need for reserve duty, internal security and anti-terrorism spending.

10-Year Plan Funding Levels (in billions)



The 10-year U.S.-Israeli security agreement aims to provide Israel with increased aid to meet growing threats.

Israel has committed to a 10-year plan of sustained increases in its own defense spending to accompany the expected growth in U.S. security assistance. Israel is slated to spend \$150 billion on defense during the next decade, a 50

percent increase over the previous 10-year period.

Israel's Defense Costs Have Risen Markedly

This increased spending comes as overall military spending has accelerated throughout the Middle East, fueled by windfall oil profits. From 2002 to 2006, the growth rate of Saudi Arabia's military budget was almost six times that of Israel's, while Iran's growth rate of military spending grew 16 times more than that of Israel's.

The military hardware—including American-built advanced fighter aircraft and naval vessels—that the IDF must acquire over the next decade to maintain its qualitative military edge is more complex, diverse and expensive than previous systems.

The most recent U.S.-produced front-line fighter aircraft deployed by Israel—the F-16I—cost \$45 million a piece. By comparison the U.S. F-35 Joint Strike Fighter, which Israel is seeking to purchase in the next decade, may cost up to \$100 million each.

Despite these costs, both countries have long recognized that their mutual interests in deterring war, promoting stability and eventually achieving peace are only possible if the United States continues to help ensure Israel's qualitative military edge over its potential adversaries.

Congress, Obama Have Strongly Backed U.S.-Israel MOU

President Barack Obama has strongly supported the 2007 agreement. “I will ensure that Israel can defend itself from any threat from Gaza to Tehran,” he said in a June 2008 speech. “As president, I will implement a memorandum of understanding that provides \$30 billion in assistance to Israel over the next decade, investments to Israel's security that will not be tied to any other nation.”

As part of his fiscal year 2010 budget, the president requested \$2.775 billion in aid to Israel, which fulfills the second year of the MOU. In June 2009, the House and the Senate approved \$555 million in security assistance for Israel as part of an emergency supplemental bill funding military operations in Iraq and Afghanistan as well as other key national security efforts. On July 9, the House of Representatives approved the fiscal year 2010 foreign aid bill, which includes \$2.2 billion in security assistance to Israel. The Senate Appropriations Committee also passed its version of the foreign aid bill, which includes the full funding for Israel. Together, the supplemental bill and the foreign aid bill will provide a total of \$2.775 billion in assistance, as called for by the MOU.