

New ten-year US-Israel Memorandum of Understanding

September 2016

Key points:

- On Wednesday September 14, US Undersecretary of State Thomas Shannon and Jacob Nagel, acting head of Israel's National Security Council signed a US\$38bn, ten year Memorandum of Understanding (MOU), which was described by the US State Department as the single largest pledge of bilateral military assistance in US history. It reflects an approximately 23 per cent increase in the previous MOU between the sides.
- The agreement maintains Israel's Qualitative Military Edge (QME) and advances joint programmes such as Iron Dome, the new anti-tunnel initiative near the Gaza border, and a host of other pre-agreed joint Israeli-American programmes which had previously been allocated on an ad hoc basis by Congress.
- The agreement also requires Israel to forego additional funding via Congress and involves the gradual phasing out the Off-shore Procurement Policy, which had allowed Israel to spend some of the aid on its own, rather than the American defence industry.
- Critics have argued that taking into account inflation and the absence of supplementary funding from Congress, the US\$38bn sum is similar to the previous MOU and could have been higher had Prime Minister Netanyahu not so vigorously opposed the nuclear deal the Obama Administration forged with Iran. Others point to the fact that in light of the general downturn in the US economy and increasing ambivalence towards foreign aid, the MOU agreement is a great achievement.
- Concluding the agreement before the end of the Obama administration reaffirms the importance of the US-Israel relationship for both countries and prevents the issue from becoming a political football. It also politically

benefits Prime Minister Netanyahu and President Obama both of whom have been criticised domestically for mismanaging the US-Israel relationship.

Background:

- The United States and Israel have maintained a strong relationship for decades, based on a host of factors including a mutual commitment to democratic values and shared strategic goals for the region. US bilateral military aid to Israel is seen by both countries as an integral component of the relationship and of the US commitment to Israel's security and is considered by many in Israel as vital to the country's security.
- The MOU between the United States and Israel, of which US military assistance is a key component, is required to be renewed every ten years. With the signing of their first ten-year MOU on security cooperation between Israel and the US in 1998, whereby the US committed to providing Israel with US\$23bn in security assistance, [several arrangements](#) unique to Israel were introduced, including the practice whereby US assistance is typically dispersed to Israel within the first 30 days of the fiscal year. In addition, Israel is the only country that is permitted to utilise the cash flow to finance US arms purchases, and to negotiate arms deals directly with US defence suppliers, leveraging the financing coming from future aid payments.
- In addition to the ten-year bilateral military assistance agreements, [supplementary funding](#) has been available to Israel, in particular, related to congressional appropriations for bilateral missile defence programmes, as well as emergency assistance.

Ten years on: what has changed?

Israel's changing security environment: When the negotiations picked up in earnest in late 2015, the [Israeli media reported](#) that Israel entered the negotiations for the new MOU requesting US\$50bn over ten years. The demand for increasing assistance was based on several factors, most notably, the belief that in the wake of the Iranian nuclear agreement, Israel needs to prepare militarily for the future, when key provisions on centrifuges and enrichment expire, as well as for the possibility that the deal falls apart beforehand.

Moreover, Israel remains concerned that as [international sanctions](#) on Iran are lifted (initial reports suggested that the lifting of sanctions would give Iran access to [US\\$50bn](#) in frozen assets), the influx of cash to Iran may find its way to the hands of Iran's proxies, including Hezbollah and the Palestinian Islamic Jihad – a concern which has been acknowledged by the Obama administration. Other factors that compelled Israel to request an increase in military assistance include the increase in US military sales to Sunni Arab countries – to assuage their concerns with respect to the Iranian nuclear agreement – as well as the ongoing conflict in Syria and the growing presence of violent non-state actors on Israel's northern and southern borders.

The state of the US economy: When the Bush administration negotiated the last military aid package between the US and Israel in 2007, the US government agreed to raise the annual Foreign Military Financing (FMF) grant to US\$3.1bn, through to fiscal year 2018. The current negotiations, however, have occurred in the wake of a global economic downturn, and amid calls from many in the US demanding that the government curb foreign spending, and implement deficit reduction. Yet despite the economic downturn in the US and the global economy, the new MOU of US\$3.8bn per year will be the [largest aid package ever](#) allocated by the US, and Israel will remain the [top recipient](#) of US foreign aid and security assistance.

Disagreements during the negotiations

- Immediately after the signing of the Iranian nuclear agreement, US president [Obama offered](#) additional military assistance to Israel, and expressed a willingness to swiftly conclude negotiations for the new MOU that would

take into account Israel's concerns related to the deal. At the time, [reports suggested](#) that the administration was prepared to increase the annual FMF grant, with some reports indicating the president was willing to sign off on an aid package that would amount to somewhere between US\$4bn and US\$5bn in annual assistance. However, disappointed by the terms of the Iran deal, Prime Minister Netanyahu [rejected](#) the administration's offer, a move that has been subsequently criticised by former Israeli security officials. Netanyahu further angered the Obama administration in February 2016 when he [suggested](#) that his government might opt to withhold signing the aid package until after Obama left office, indicating that the terms Israel would receive might be better under the next administration.

- On April 25, a bipartisan group comprised of 83 US Senators signed a [public letter](#) in support of signing a “robust new MOU” that “increases aid while retaining the current terms of our existing aid programme”. The White House publicly rejected the letter, and this prompted Netanyahu to reach out to the Obama administration, through a private backchannel, to [distance the Prime Minister's office](#) from the Senate letter. While the negotiations were reportedly concluded in August, news broke on September 12 that the announcement was [being held up by US Senator](#) Lindsey Graham (R.-S.C.). The White House was troubled by the fact that Graham, in his role as chairman of the Senate subcommittee overseeing the foreign affairs budget appeared to be working to undermine the administration's negotiations with their Israeli counterparts, by marking up an appropriations bill that would provide funds to Israel exceeding what the administration was offering. It remains unclear whether the administration's disagreement with Graham had been resolved when the deal was announced on September 13.
- Developments in [US domestic politics](#) may have led the Prime Minister to decide to complete the negotiations and sign a deal during Obama's tenure. Thus far in the election cycle, the Republican Party's nominee for president, Donald Trump, has sent [mixed messages with respect to what a Trump administration's policy would be with respect to Israel](#). While he has publicly affirmed the importance of the US-Israel relationship he has also demonstrated isolationist tendencies

and suggested that US allies would have to pay their share in exchange for American support. Meanwhile, the Democratic presidential candidate Hillary Clinton is unlikely to offer more than her predecessor. For Netanyahu, signing the deal before the end of Obama's tenure in office may also be an attempt to silence his [domestic](#) critics, who have repeatedly claimed that he has [mismanaged](#) the US-Israel relationship.

What does it mean? Key components of the deal

Maintaining Israel's Qualitative Military Edge (QME): Since the 1970s, the US has pledged to assist Israel with [maintaining its QME](#) over neighbouring countries and this commitment on the part of the US remains unchanged, evidenced by the administration's willingness to sign a new MOU with Israel at an increase of around US US\$10bn over the decade, as well as by the fact that the Obama administration has, over the years, [provided more aid funding](#) and security assistance than his predecessors. Apart from executive actions, Congress too has taken steps to reaffirm the US commitment to Israel's security. Aside from fulfilling annual requests for supplemental funding and providing emergency assistance to Israel during 2014's Operation Protective Edge, in 2012, Congress passed the [United States-Israel Enhanced Security Cooperation Act](#), which reaffirmed the commitment of the US to maintaining Israel's QME.

Advancing joint programmes: For the first time, the new FMF grant incorporates funding for missile defence, allocating nearly [US\\$500m](#) to be spent in Israel on cooperative missile defence programmes such as Iron Dome, the new anti-tunnel initiative, and a host of other pre-agreed joint Israeli-American programmes. Previously, funding for missile defence was allocated on an ad hoc basis by Congress.

Foregoing supplemental funding via Congress: Two key provisions promoted by the Obama administration contributed to prolonging the negotiation process. The first is the requirement that Israel [forego](#) – barring an extreme emergency – lobbying Congress to request supplemental funding. According to one estimate, supplemental funding provided to Israel since the start of the last MOU in fiscal year 2009 [exceeds US\\$1.9bn](#) in Pentagon budget requests. This includes the allocation of US\$40m for a joint US-Israel tunnel

detection programme, as well as US\$487m for joint missile defence programmes. The latter earmark was part of an omnibus spending bill passed by the US Congress in December 2015.

Phasing out the Off-shore Procurement Policy (OSP): The second source of disagreement relates to the [phasing out](#) of the OSP. The policy, established in the late 1980s and unique to Israel, allowed the Israeli government to allocate [26.3 per cent](#) of its annual FMF grant to be spent on procurement from Israeli (rather than American) defence companies. In effect the [OSP](#) acted as a subsidy to Israel's now robust defence industry, placing it on par with that of the US. Per the terms of the new MOU, the parties have agreed to a gradual phasing out of the OSP, over a six-year period, [beginning in 2020](#).

The US Administration maintains that while the OSP was initially established under the Reagan Administration to subsidise the Lavi project – a US funded Israeli air force programme that was terminated 30 years ago – it was never intended to be an open-ended entitlement programme. At present, the policy's terms, combined with allowances for Israel's spending on [fuel](#) for its air force, allow for nearly [38.7 per cent of the military aid](#) (US\$1.2bn annually) to be spent in Israel rather than on US material. During the negotiations for the new MOU, [Netanyahu agreed to end](#) the provision regarding using US FMF funds for military fuel purchases.

The gradual phasing out of the OSP would bring US assistance to Israel in line with similar arrangements with other countries, wherein the money would now have to be spent in the US. However, in the wake of reports that the new FMF will result in a loss of funding for local research, development and procurement, the Israeli defence industry is bracing for massive [layoffs](#) while concern exists that phasing out the OSP may ultimately impair Israel's ability to maintain its QME.

The continuing importance of Israel-US Relations

- While the newly signed agreement is scheduled to come into effect in fiscal year 2018, concluding the agreement before the end of the Obama administration reaffirms the importance of the US-Israel relationship for both countries. First, it will prevent the issue of US military assistance to Israel from

becoming a political football – one that either government can exercise to mobilise domestic supporters during election period. Second, while recent [polling data](#) suggests that support for Israel among certain segments of the American population is slipping, the signing of a ten-year military assistance agreement by a liberal US president would indicate that US-Israeli security cooperation remains, as one analyst recently noted, “[bulletproof](#)”.

- Signing the agreement before the end of the Obama administration also sends a strong message to detractors that while the two leaders may not have a strong personal relationship, the US government continues to view its relationship with Israel as a [strategic priority](#).

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