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US Military Aid to Israel

Fabio Tana

Relations between Israel and the US are unique. The economic and military dependence of the Jewish state on the US is deeper and more complex than in any other case. More than any other country, Israel is capable of influencing American decisions. These two factors are connected, with no hierarchy of 'strength'. If the second factor didn't exist, the first would not be able to exist either, nor would the present level of military dependence. This kind of dependence is easier to measure in concrete figures, but that doesn't mean that Israeli political influence on Washington is less real than the American dollars given to Israel. It is for this reason that analysis and predictions on Middle Eastern policy based on American pressures have never been valid.

If the US were to threaten Israel with suspending its financial assistance, it would certainly be cause of concern for Israel. Not only would the Jewish state be thrown into a serious economic crisis (much worse than the present one because of the sudden drop in the standard of living), but it wouldn't be able to guarantee its military security either. US support of Israel, however, has never been an argument of discussion.

The 1952 agreement provides that defence articles and services sold to Israel may be used only for certain purposes, such as internal security and legitimate self-defence. Sanctions for substantial violations may be decided on the basis of the Arms Export Control Act. Credits and guarantees to Israel in this case would be cut off, as well as cash sales and deliveries under previous sales. But on the basis of the agreement the President is authorized and not required to determine that a substantial violation has occurred. The President must only report to Congress that a violation 'may have occurred'. From 1952 the government has reported four times to Congress upon possible violations. That was what Cyrus Vance did in 1978, when Israel's military forces crossed into Southern Lebanon. But in view of a statement by the Israeli government that it intended to comply with UN Security Council Resolu-

tion 425, which called for the Israeli withdrawal from Lebanon, the Secretary of State said he was not recommending that the President take any further action. Similarly in 1979, when Israeli forces again crossed into Southern Lebanon, and in 1981, after the Israeli attack on Iraqi nuclear facilities, as well as in 1982, in the case of the invasion of Lebanon, the continuing bombing of Beirut and Israel's use of cluster bombs, the Secretary of State reported that a violation 'may have occurred'. These statements essentially aim at mobilizing American and Israeli public opinion. Nobody in the US has ever planned on totally cutting off US assistance and arms sales, as was the case during the previous embargo on Turkey over the Cyprus affair.

It is absurd to consider Israel a puppet state controlled by the US. The huge amount of American aid isn't proof of this. Often it is the US which is blocked in the implementation of a political program because of its alliance with Israel. In the field of military aid alone, it is meaningful to remember that each American move toward Arabs was followed by an opposite and more important move toward Israel. Arms sales to an Arab state generally have led to another sale to Israel to offset Jewish security concerns. The Israeli withdrawal from Sinai after the 1956 war is irrelevant, because in that period relations between the two countries were still weak. On the contrary, the Eisenhower intervention was made possible by the lack of forms of dependence.

Israel isn't a US 'colony' either. Colonies are exploited, impoverished by the colonial power. The relations between Israel and the US produce, what one might see as the opposite phenomenon. It is the US which is impoverished, for example, when we look at the loss of jobs in domestic industry because of Israeli competition. The relationship is the opposite of a colonial one when, as in the case of Israel, financial savings are negative and foreign assistance is the only source of growth, enabling the population to consume more than it produces and still having something left over to invest. Money available for investment in the last ten years has been less than American assistance. Exports, vital for a country where the proportion of foreign trade to national production is so high as in Israel, depend on subsidies and foreign intervention.

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The special trade relationship between Israel and the US is illustrated by the agreement to establish a Free Trade Area (FTA) by progressively eliminating all tariff quotas and subsidies over the next ten years. The FTA pact is the first such accord to be negotiated by Washington. It is intended to help strengthen the Israeli economy by opening up the vast American market to unrestricted access of Israeli products. The FTA agreement will replace the Generalized System of Preferences arrangements, under which 90 per cent of Israel's 1.2 bn. dollar exports to the US are already duty free. Tariffs will be eliminated in four stages, with action on the most sensitive products for both countries deferred to the final stage.

It is evident that the strategic advantages which Washington receives from its alliance with Israel are great. But they are not enough to explain the complicated web of relations between the two countries. No political process on the regional level seems able to melt the existing tie. Certainly an offer of alliance by an Arab state or an Arab bloc of states (even oil exporters) wouldn't be able to do it.

* * *

All of this brings us to two conclusions: 1) Israel is sure to continue receiving assistance from Washington (which means that American pressures can't deeply influence Israel). 2) Israel's possible appeasement of the US doesn't depend on the fear of sanctions. All of this is true even though Israel's financial dependence (and therefore military dependence) on the US has been growing continuously. In the framework of this increase, the momentary crises in relations between the US and Israel appear — at least until now — unimportant.

US government aid to Israel, for the fiscal year 1983, totaled 2.5 bn. dollars, which constituted 31 per cent of all US aid to 31 recipient countries. In 1984, on the basis of the agreement established during Yitzhak Shamir's visit to Washington in December 1983, the amount diminished. Military aid dropped from 1.7 bn. dollars to 1.275 bn. (even though Shamir asked for an increase of 700 m.). But it was only an apparent cut, because in 1983 half of the assistance was made up of loans and the other half grants, but in 1984 the entire amount was in grants. So really, the grants jumped by 425 m. dollars. This decision, besides coming closer to what Shamir requested, also consolidated a trend of raising grants in the military field, already seen the year before when Congress made an increase of 250 m. dollars in grants proposed by Reagan. Civil aid, already completely constituted by grants, remained equal: 750 m. dollars.

In 1985 military grants were increased by 150 m. dollars to 1.4 bn. One billion, two hundred million was given in economic aid. The trend of increasing military assistance was confirmed when the Pentagon recommended that the US give 1.9 bn. dollars in military grants to Israel for the 1986 financial year. At the same time Israel's demands became increasingly more. For 1986 Shimon Peres asked

grants — in the military and economic fields — of just over 4 bn. dollars in emergency supplemental aid as well. During 1985, Washington approved a two year emergency economic aid package of exactly 1.5 bn. dollars, with 750 m. due to be paid before October.

To this official assistance must be added unofficial sources of financing: it is calculated that aid from private organisations is at least equal to government aid. Government and private aid amounted to about 4 bn. dollars in 1984. This figure however is incomplete because it doesn't include loans and credit lines of commercial banks, which amounted to about 2 bn. These loans aren't privileged. Therefore, strictly speaking, they can't be included in American assistance. However, if we consider the negative situation of liquidity, the very low level of foreign currency reserves (equivalent to a few weeks of imports), the rising burden of the debt service, and the refusal to freeze consumptions, such an amount of commercial credit would be impossible without the cash flow connected to official and informal American aid, as well as political willingness.

Thomas Stauffer, who wrote a very important essay on the subject, published by the Middle East Institute of Washington, deduced that Israel's dependence on foreign aid (and therefore on American aid as it is equivalent to 80 per cent of the total) is similar to the OPEC countries' dependence on oil. For this reason we can't consider American assistance as a simple figure in the budget, or a loan without interests and repayment. It is an additional economic factor, which produces enormous chain reactions. As Yigal Cohen-Orgad stated, 'dependence on foreign aid has become like a drug addiction'. In the military field, too, dependence is total and produces chain reactions. Efraim Inbar, member of the Israeli Institute for Research on Contemporary Society, wrote in the period following the Kippur war, foreign arms purchases and military aid programs 'are fundamental for the survival of Israel as a state'.

* * *

American assistance arrives in Israel through many channels. What is classified as public aid and must therefore be approved by the Congress, is divided into military assistance or, technically, Foreign Military Sales (FMS), and economic aid, called Economic Support Fund (ESF). Economic aid isn't linked to any particular rules. It should be available for general imports without connections to specific programs or priority commodities. The only condition attached to this aid is that purchases of non-military goods from the US should never fall below the aid level.

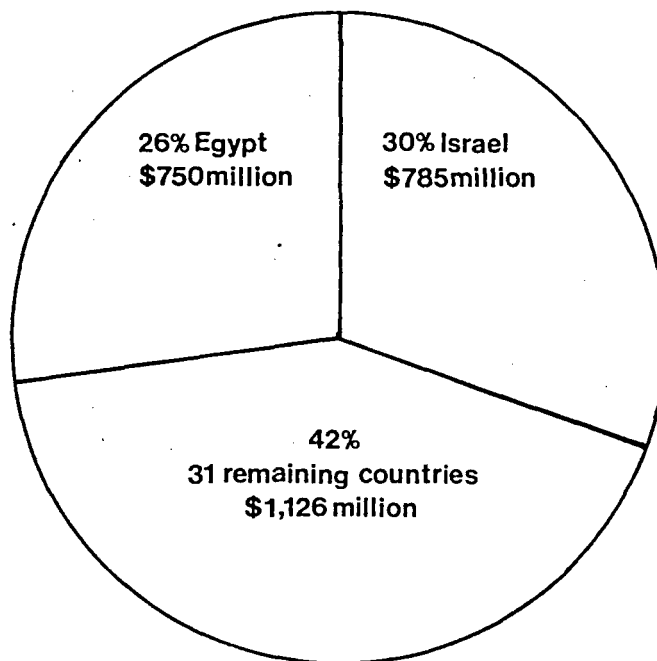
There was also an additional condition which was however, dropped in 1981. This condition stipulated that any country receiving aid must, in a given year, buy products whose total value exceeds the normal level of imports by the amount of the aid. There is no prohibition to use the ESF for debt service repay-

ment, ignoring the fact that the debt comes almost completely from arms purchases. Non-military economic aid is virtually non-existent. On this matter the General Accounting Office (GAO) report is clear. Israel has been able to repay the military debt only using cash received through the ESF program.

toward Israel or the consequence of the intention to use the same rules as the IMF, is to forget that Washington lacks any direct control over aid.

The interest rate is very low: 2.5 per cent. Moreover, the terms of repayment of the loans are very long: 30 years, divided into a 10 year grace

FY 1983 Economic Support Fund Recipient's Share of \$2,661 Million



The FMS was divided until 1984 into two halves—grants and loans—guaranteed by the Federal Financial Bank.

In the last few months, the US has appeared reluctant to agree to all Israeli demands in the field of economic aid. The Department of State is especially trying to link a rise in economic assistance to the implementation of economic reforms by the Israeli government. To consider this move as unwarranted interference, the sign of a hardening in the attitude

period followed by 20 years for repayment of the interest and principal (in contrast to what has been the usual repayment period of 13 years for most recipients).

US aid is ruled by a formal agreement signed in 1952, even though it began in 1948, in the wake of Israeli independence. It totalled 28.5 bn. dollars from 1948 to 1985. This figure includes: 18.6 bn. in military loans and grants; 6 bn. in economic assistance loans and grants under the security

assistance program; 2 bn. in other non-security assistance programs, which include Food for Peace, housing guarantees, Export-Import Bank loans and aid for resettling Jews from the Soviet Union. 1.9 bn. dollars (the amount of assistance for 1984 and 1985) must be added to the last figure; it was given without any condition and therefore can't be classified in the above mentioned categories. In 1981 the significance of ESF changed. Since that year ESF has been a transfer of cash provided to support the Israeli economy and help the country address its balance of payment problems.

In the last decade, American assistance in all its forms has greatly risen. Out of a total amount of 20.3 bn. dollars for FMS, 17.6 bn. were given by the US after 1974. During the last decade, the increase has been gradual with three sudden increments due to momentary political situations. The first increment was in 1974, the year after the Kippur war; the second in 1976 after the disengagement agreements in the Sinai peninsula; the third was in 1979 after the Camp David agreements. In this period the ratio between grants and loans changed. In 1972, total assistance barely amounted to 475 m. dollars (of which 150 m. in the form of FMS). Eighty-eight per cent of the amount was constituted by loans. This ratio changed dramatically in 1974, when for the first time grants were inserted in the FMS. In 1974 they represented 65 per cent of the total. Subsequently the ratio dropped: 50 per cent from 1976 to 1980 with an exception in 1979; 35 per cent in 1981; 40 per cent in 1982 and 1983. Since 1984, all of FMS has been represented by grants. Since 1979 the Export-Import Bank's role has also grown. Before this date, it lent Israel only a few million dollars a year. Since then, the average amount has been 300 m. dollars.

From 1952, when US military assistance to Israel began, to 1967, Washington was not the greatest arms seller to Israel. Although some deals were signed during the sixties for the sale, *inter alia*, of the Hawk missile and the A-4 fighter aircraft, until the Six Day War, Great Britain remained the largest tank supplier and France the first aircraft supplier. When France changed its attitude, Washington quickly jumped in, but it wasn't until 1973 that the US took the giant leap.

This change was imposed by the need to rebuild the Israeli arsenal, which was destroyed during the Kippur war, and to correct the country's military structures on the basis of improvements revealed necessary by the conflict. These improvements regarded the quality and quantity of armaments. Israeli military officials, in effect, were convinced that only with greater shooting capacity (i.e. a strengthened army) would it be possible to avoid defeat in the future. Israel had barely escaped it in 1973 from the enemy's surprise attack. A remedy for the overvaluation of the 'mobility' factor, which had had priority in Israeli strategy until the war also had to be found. Moreover enough forces to counterattack simultaneously on two fronts would have to be available. Israel would have to build up enough stocks to avoid having to ask for new

military supplies during the conflict, as happened in 1973. In 1977 the Jewish state had replaced all the losses. Subsequently it increased its tanks by 50 per cent, its artillery by 100 per cent, armoured cars by 800 per cent and aircraft by 30 per cent.

An additional figure in American assistance consists of special contracts. These contracts represent an important source of income for the Israeli military industry (their value amounts to several hundred million dollars a year). The GAO report treats this subject fully and this is proof that special contracts are very important in relations between the two countries, especially for the possible coming developments. Since 1968 the Jewish state has received US financial and technical support in order to fulfil its own defence needs as independently as possible and maintain its qualitative edge over Arab weaponry.

To meet this aim an agreement was signed in 1970, which permitted and facilitated the exchange of information important for the development of a full range of military systems including tanks, surveillance equipment, electronic warfare, air-to-air and air-to-surface weapons. Also in 1982, during the Lebanese war, 19 separate data exchange annexes were concluded (as is known, the exchange of information in this period was especially in favour of the US, because the technological lessons learned by the Israeli army in Lebanon were also useful to the US defence establishment). Production licenses have been given in generous amounts. In the electronics industry, about 35 per cent of the knowledge is acquired from the US in licensed production.

Two agreements for the development and enhancement of Israel's defence production were signed in 1979 and 1981. The first provided competitive opportunities and new markets for Israel's industry; the second, for American purchases of Israeli arms to stimulate local defence industry. This trend brought about the memorandum of understanding of November 1981, frozen in 1982 and then reestablished. On the basis of the memorandum, in practice, Israel sells arms to Washington on privileged conditions. Annex B of the memorandum provides an open-end list of over 560 military items and services. Israel can use this list to submit competitive bids to meet US Defence Department requirements without application of 'buy America' restrictions. These items include parts for M-60 and M-1 tanks, missile and aircraft components, ammunitions and bombs.

After Israel extended its civil authority into the Golan Heights, some political difficulties arose between Israel and the US, but their special relation in this field did not change, even though the memorandum of understanding and the 'defence trade initiative' were suspended. According to Stauffer, even without the memorandum, a contract of 93 m. dollars regarding electronic equipment was signed. There has also been the practice of sub-contracting with American firms connected to the Defence Department, like McDonnell-Douglas. These contracts often take the form of 'offsets', which are nor-

mal in military trade relations between the US and NATO countries. However, in Stauffer's opinion, in the case of Israel it is meaningless to speak of offsets. There is no economic reciprocity in sales and there is no symmetry in payment, either. The US buys Israeli products at the normal market price, but Israel buys American products with a 40-50 per cent reduction. Basically, the US isn't used to drawing up offset contracts with countries which receive credits on FMS. This occurs only with Israel. According to research carried out by the Aerospace Industries Association of America and the Electronic Industries Association, from 1975 to 1981 the US drew up offset contracts with 23 countries, among which only 4 countries were receiving FMS credits. What's more, Israel obtained 12 contracts for a total of 262 m. dollars; Spain, which was in second place, obtained only 5 contracts for 32 m.; Korea and Greece each had one contract.

At any rate, Israeli officials say (and regret) that their country is conducting about 10-15 m. dollars per year in business under Annex B. For this reason a 'task force' was established to implement commitments. The task force had to study methods for stimulating industry within existing budgetary and security assistance funding levels. Some of the initiatives identified and under consideration, according to the GAO report, were: authorizing use of FMS credits for offshore procurement on a case-by-case basis; developing more liberal technology transfer guidelines; expanding the list of items for US procurement under the signed agreements. The most important suggestion was: 'allowing Israel to sell back to the US its obsolete and surplus equipment for possible third country transfer'. This suggestion, evidently judged non-orthodox, was in the beginning censored by American authorities, which monitored the GAO report before its publication.

Israel proposed another system, too. This was based on the idea that the development and strengthening of local military industry — an aim accepted by Washington — is connected to a commitment to increase its export capabilities. The domestic demand linked to national defence needs isn't enough to offset the large capital investments involved in the production process. According to this plan, Washington would allow Israel to purchase its own goods with FMS credits and would allow other recipients to use their FMS credits to make purchases in Israel as an integral part of the US security assistance program.

* * *

It isn't clear if Washington has accepted these suggestions, as several agreements aren't fully known. In any case, deals regarding American support to Israel's military industry best show the uniqueness of the relations between the two countries. Such support, in effect, has no evident economic or political justification. Inbar, who on other subjects lays stress on the 'ambiguous behaviour' of Washington, must recognize that Israel has gradually lessened American doubts on this item. According to Inbar,

the US decided to strengthen the Israeli defence industry because this approach was cheaper than selling American military equipment to Israel at a reduced price. But such reasoning isn't convincing as it implies a refusal to consider a drop in military assistance, even on a hypothetical level. Moreover, it doesn't sufficiently take into account — as does the GAO report — that an Israeli defence industry, which is sophisticated enough to be able to expand exports, would produce negative effects on American military exports. Certainly Israel can't compete with the US in the matter of foreign military sales, but it is the country with the largest weapon-intensive exports in the world: 350 dollars per capita. Apart from the justification, it is important to underline that, after some hesitation, the US authorized Israel to sell the Kfir fighter aircraft to Taiwan. Washington also obtained advantages using Israel as an arms supplier to countries considered vital for Western interests but which couldn't be openly sustained because of their autocratic governments, such as several states in Central America, Argentina during the military government, South Africa and Taiwan. It is more difficult to understand what the American advantages are in buying Israeli equipment as offset contracts for American forces dislocated in Europe and the Sixth Fleet. The outcome is that Israel domestically produces at least 40 per cent of the military equipment it needs and that half of military imports are paid by the military exports.

The changes in the American attitude aren't significantly linked to important political decisions. It confirms that there is a general consistency in US policy toward Israel. Permission to export the Kfir fighter aircraft, which was at the beginning refused and then given, was disputed only within the Carter Administration. No political turning point suggested the change. Apart from debatable evaluations of the economic advantages, two opposite pressures were exerted on both Carter and Reagan. The sectors which were against development of the Israeli defence industry underlined that the US would strategically give preference to an Israel totally dependent on American arms. As a result the Jewish state would be more influenceable. On the other hand, there was the sector especially interested in an improvement in relations with the Arab world. Israel's self-sufficiency would have been very useful, as the US found it difficult to overcome Arab mistrust for the huge support given to Israel. In this case Washington might parade its 'balanced policy' more easily gaining Arabs' trust.

In the last few years US military sales to moderate Arab countries (especially those of the Gulf) have dramatically risen and at the same time the strategic importance of these countries has increased. Israel has always opposed the unconditional rearmament of the Arabs, sometimes interfering with plans which the White House considered useful for Western interests. A case in point is represented by Israel's criticism of the Jordan task force, which Reagan wanted to build for the sake of strengthening the anti-Soviet and anti-revolution rapid deployment

system in the Gulf. Arms sales to Jordan, in the end, were blocked by the Jewish lobby in the Congress. Until now the outcome of Israeli dependence has been the speeding up of the arms race, because of the fact that Washington has tried to satisfy all regional partners. Israeli protests have been calmed with new supplies of more sophisticated equipment, as happened after the sale of Awacs to Saudi Arabia. If Israel were self-sufficient, Washington could reduce arms sales to the Arabs without appearing anti-Arab and stop the arms race in the Middle East.

At a political level in Washington, the two abovementioned pressures show the tendency to counterbalance each other, blocking any decision. At a technical level, too, indecision prevails. When the GAO report speaks of the expansion of Israel's defence industry and the developing of its high technology military equipment, it concludes by saying: 'At present there is some uncertainty and a lack of definitive policy guidance regarding the degree to which the US is willing to support such an effort. It seems appropriate to us that the many facets of US economic problems, national security interests, and the willingness of the US to continue to support Israel's military must all be considered. Otherwise, precedents can be set to cause other recipient countries to request similar treatment, and controls over military technology might eventually be jeopardized.'

As a consequence, Israel's choices seem to be a decisive factor. It is obvious that Israeli pressures are particularly efficacious as they act on US indecision. It is evident, too, that the efficacy is clearer at a general political level than for specific technical requests: for example, permission to purchase equipment in third countries and not only in the US with FMS credits, payment of the whole amount of the ESF at the beginning of the year instead of in installments, increase of assistance linked to the withdrawal from the Sinai.

* * *

In the last decade the real new factor has been the change of political leadership in Israel, whereby the Likud took over from the Labour Party in 1977 (until the present confused situation created by the 1984 elections, characterized by power-sharing). The Labour Party in principle bolstered the development of the domestic defence industry. Already in the fifties, for example, Shimon Peres was one of the most ardent supporters of it, but in that period the defence industry was a light one. It was the Labour Party which implemented the important plans for the Kfir fighter and the Merkava super-tank (for the latter, Israel asked Washington permission to use the credits allocated for the sale of 170 M-60 tanks). However, the Labour Party always made emotional decisions provoked by understandable psychological motives, affecting the embargo ordered by France in 1967 as well as the English embargo regarding the Chieftain tank in 1969. The fact that Yitzak Rabin, when he was prime minister, preferred

foreign purchases to an increase in domestic production is more important. At any rate he believed that Israel should not put pressure on the White House to obtain credits for the defence industry, but to receive support for other political items.

Begin, who became the prime minister in 1977, reversed this approach. This was shown clearly by his approval of the Arieh project, which Rabin had shelved, and its transformation into the Lavi project. Begin aimed at co-production deals, too, in order to cut the very high research costs and eliminate competition with the US on foreign markets. Co-production, however, was (and is) for the Likud a kind of obligatory first step in the launching of a technologically advanced domestic military industry. Certainly it isn't seen as an alternative to this aim.

Washington accepted to co-finance the Lavi project in 1979. In that period the Americans believed that the new plane could be the cheaper version of an old model. Each of the 300 planes to be built for the Israeli Air Force was originally estimated to cost 10 m. dollars (a figure which many independent experts regarded as unrealistically low). In 1980 authorization for development of the Lavi based on the General Dynamics F-16 fighter was given. The US government allowed Israel to use FMS funds in order to buy equipment for the plane in the US. 250 million dollars a year were also provided to fund the development cost of the Lavi. Subsequently Lavi's design, performance characteristics, and envisioned level of technology were changed to make it more than an A-4 replacement. The general significance of the project for Israel changed, too. For the Likud government the Lavi almost became the symbol of Israeli self-reliance. At the same time, it was the best way to help the Israeli aircraft industry, the country's largest industrial employer (more than 20,000 employees). Therefore, there were no reasons to change plans regarding the project, although research costs rose from 750 m. dollars in 1979 to 1.5 bn. in 1982.

Two things happened to change the situation: 1) the 1984 elections and the return of the Labour Party to government; 2) the worsening of the economic crisis, which prohibited Israel from going on alone. In 1985 an independent review of the program revealed that development costs for the plane would be far in excess of the figure originally estimated. A prevision of 2.9 bn. dollars was the most likely. The cost of each plane is now 16 m. dollars and it may go higher still. Because of soaring costs at a time when ways are being sought to cut the defence budget, the ministry of defence began in 1985 to consider abandoning the project. This trend was bolstered by the labourist awareness that economic development can't be based on the aircraft industry (and other war industries), and by the US attitude. Washington indeed let it be known that, even if the Lavi is scrapped, as many in the Pentagon believe it should be, the sum for the project will still be granted to Israel as part of the military aid package. Instead of producing the Lavi, Israel may consider a co-production deal with General Dynamics to

assemble the F-16 in Israel or with the American company Northrop to help develop and build the F-20.

The Lavi project provoked some problems in the relationship between Israel and the US. Nevertheless it would be wrong to identify the local defence industry with the Lavi. Even if in the US doubts on the opportunity of building the Lavi are rising, we shouldn't forget that American authorities are involved in increasing Israeli exports, because of cooperation in the field of research and in technology transfers, permission to re-export products with American components, and cooperation in the dividing up of the foreign markets.

* * *

Apart from public aid, American assistance to Israel is composed of a flow of private funds. According to Stauffer, author of a thorough analysis of this problem, an average figure of 1 bn. dollars is the total annual amount of the private (for the most part, charitable) transfers. Israel's statistics show that at least 70 per cent of these funds come from the US. The money is given by Jewish American associations, large and small, which can deduct their transfers — if they are officially acknowledged by Israel — from US income tax returns. This is an important privilege. Another significant source of dollars is represented by the sale of Israeli development bonds: an annual average of 450 m. dollars in the last years, mostly coming from the US. The bonds are offered to public institutions more than to private associations and aren't tax free. However American laws, in Stauffer's opinion, foster the bonds' distribution in spite of the low yield and limited marketability. A last source of funds is constituted by direct private investments in industry or other activities: about 200 m. dollars a year. The total comes to 1.2-1.4 bn. dollars. It is a partial loss not only for the US balance of payment, but also for the US Treasury (because of the fiscal deductions).

Duty exemptions for Israeli exports to the US represent an 'additional support'. Although per capita income is fairly high, Israel was inserted in the 'developing countries' category. For this reason it benefitted by free but not-reciprocal admission on to the American market, on the basis of the Generalized System of Preferences, for 90 per cent of its products (until the establishment of a Free Trade Area which will eliminate all tariffs). The importance of such support is shown by the large amount of Israeli exports: 1.2 bn. dollars in 1984.

A special form of aid regards oil. The US guarantees a source of oil for Israel's normal domestic consumption requirements since return of the Sinai oil fields made it dependent again on external sources. Israel is the only country that has such a bilateral agreement with Washington. On the basis of this agreement the Jewish state receives an oil flow which is guaranteed and steady both in quantity and price. If Arab countries were to decide on an oil embargo against the US, the flow would

decrease but wouldn't stop. An Export Administration Act amendment explicitly authorizes — and it is the only case — US firms to sell oil to Israel also during an Arab embargo.

Another form of aid is the money spent by the US for Sinai peacekeeping activities, which rose from a 162-person civilian operation, known as the Sinai Support Mission, to nearly 1260 US military personnel and civilians in the Multinational Force and Observers (MFO). In 1981, Washington agreed to pay 60 per cent of the MFO starting costs and, thereafter, to share equally in covering the MFO operating budgets with Israel and Egypt. This commitment is to be added to the 3.2 bn. dollars given to Israel for financing 'additional redeployment costs' after the withdrawal from the Sinai. Lastly, a part of the funds paid by the US to UNRWA, the United Nations agency for refugees may be considered as indirect aid, although certainly not very important. In fact, these funds are used in the occupied West Bank.

* * *

Potentially it would seem Israel is conditioned in its freedom of action by the large amount of American aid, which has indirect consequences on the economy. Per-capita foreign assistance, in any form, amounts to 1500 dollars: an absolute record. A dependence detector is the trade deficit, which is a well known figure. Here it is important to underline that the deficit has gradually risen, paralleling American assistance. In the fifties the trade deficit amounted to a few hundred million. It reached 3.8 bn. dollars in 1980 and 5 bn. in 1983, representing 25 per cent of the gross national product. The trade deficit is offset by foreign financial aid, and produces debt, services of which are an increasing burden (although grants are rising). In the first half of 1983, as the Bank of Israel announced a week after Begin's resignation, foreign debt had risen by 530 m. dollars due to expiration of the 10 year grace period attached to loans received before 1973. So the Israeli outstanding debt rose to 21.5 bn. dollars, almost equal to the gross national product.

Prof. Peter G. Frank of the American University of Beirut estimates that Israel owed debt services to the US equal to 800 m. dollars in 1982 alone and an average of an additional 15 per cent each following year: 913 m. in 1983, 1.16 bn. in 1984 and perhaps 1.8 bn. by the year 2000. Simple arithmetic reveals that as a result of debt service payments after 1983 US economic aid of 750 m. dollars a year for civilian purposes cannot permit a transfer to Israel of any real resources at all and that in the following years a reverse transfer will have to take place. Debt service payments to the US exceeded US economic support by almost 400 m. dollars in 1984 somewhat less in 1985. By the end of the decade the overbalance is likely to be 1 bn. dollars. To avoid reaching the point where the US is receiving money from Israel rather than giving it, the GAO report says that the ESF must rise very fast. It is especially

necessary that all the support be in the form of non-reimbursable grants. The only alternative would be a new grace period, but in the present troubling moment of international finance such a decision would be difficult to make. What has been happening in the last two years shows that the winning trend — which was strengthened with the US-Israeli December 1983 agreement — is a change of all aid into grants and a strong increase in economic aid. This is neither a present of the Reagan Administration, nor a temporary political commitment linked to the memorandum of understanding for strategic cooperation of November 1981. It is connected to pragmatic logic based on the actual state of bilateral relations.

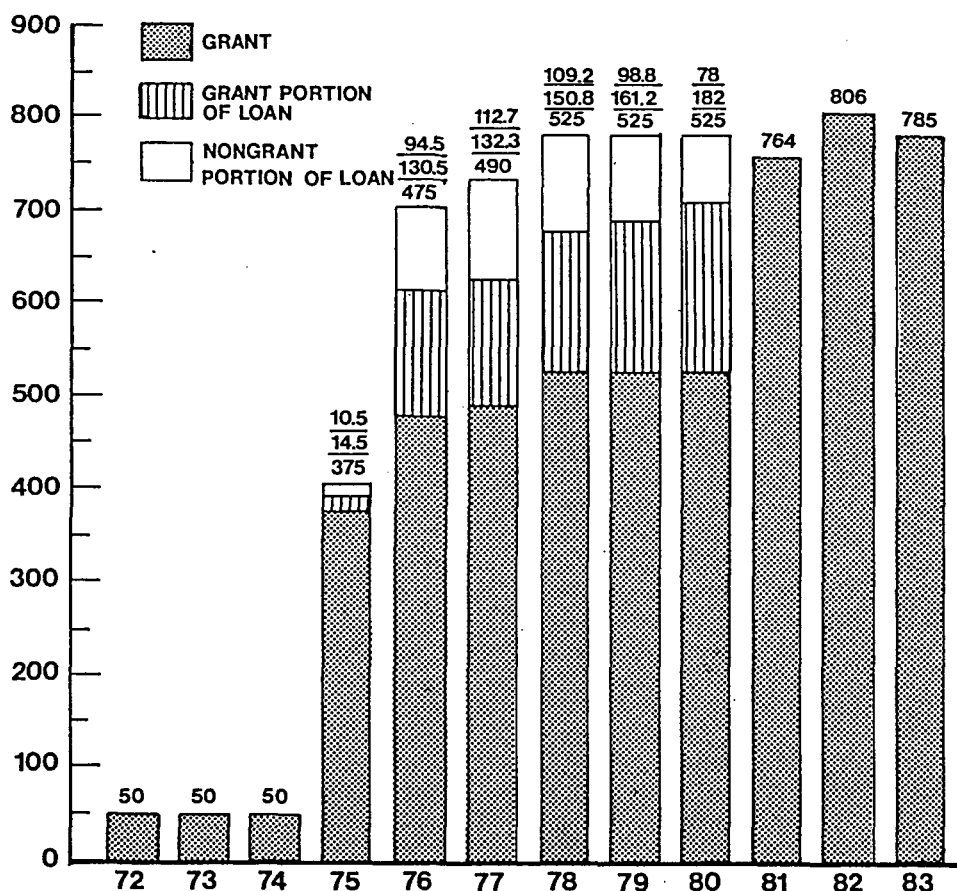
It isn't completely clear how American worries about Israeli foreign debt will influence military cooperation. At any rate, as a consequence of the rising aid, and in spite of occasional disagreements, Inbar says that Israel is now free enough in its diplomatic and military decisions, to be able for a short time to follow a policy exclusively with its vital interests in mind. Such an outcome has been achieved

even though there has always been a difference of opinion between the US and the Jewish state on Israeli vital interests with regard to arms. Pentagon officials have always believed that the Arab threat is overemphasized and that Israeli authorities exaggerate their demands in order to get the most out of bargaining.

The edited version of the GAO report deletes the views of Pentagon officials 'at the working level', who believe that Israel can do with less than the proposed package. Israel indeed 'could get by with 1 bn. dollars annually and still maintain its superiority'.

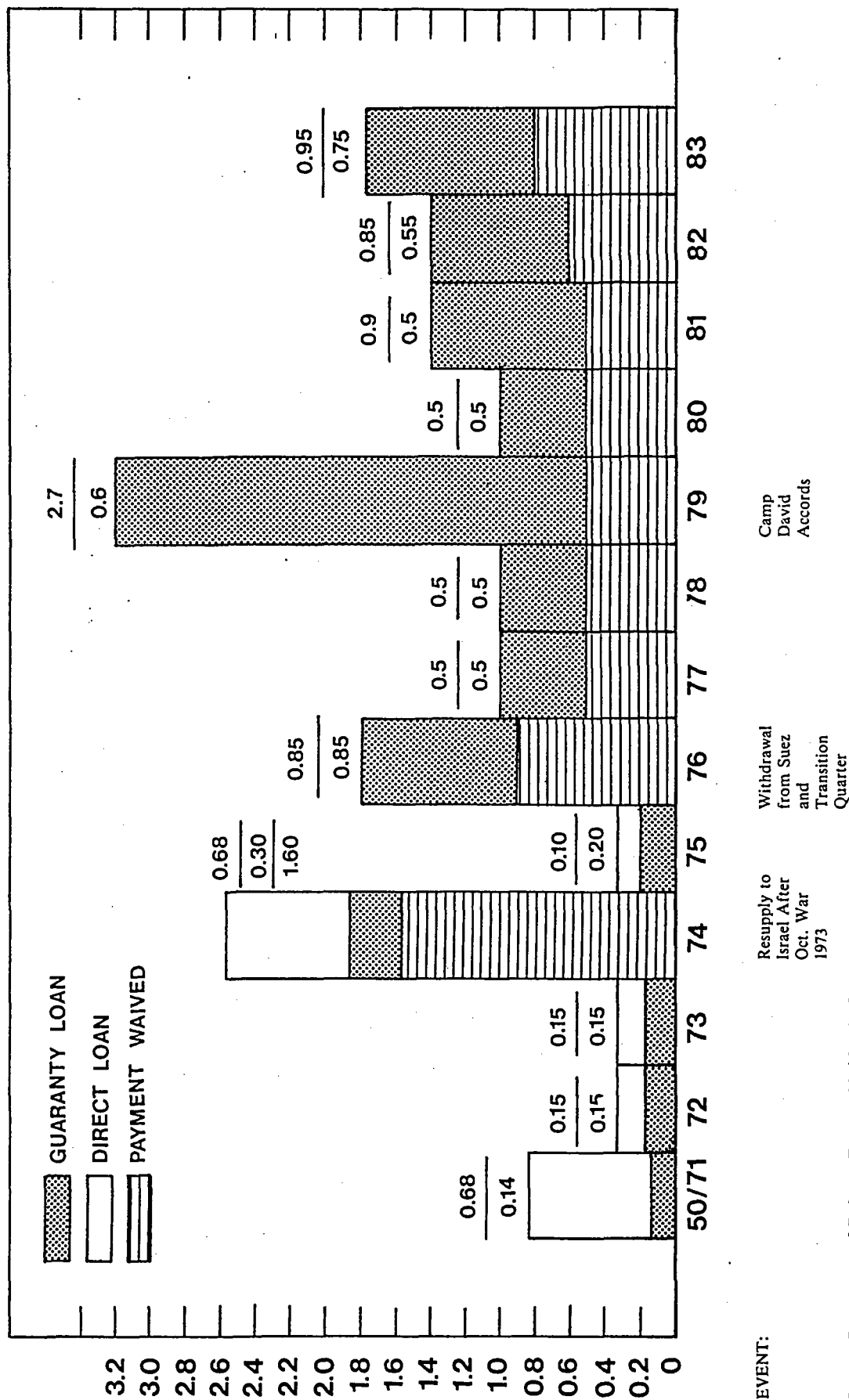
Israel, on the other hand, has never accepted not only US delays and doubts with regard to sale of high technology goods, but also the 'priority' given to the NATO members. Now this last problem seems to have been solved, as the trend of increasing military aid is connected with the trend of improving the quality of military equipment. Evidently there is no incompatibility between Israel's and NATO's needs.

U.S. ECONOMIC ASSISTANCE FOR ISRAEL
(Disbursements in millions of dollars)
FY 1972 - FY 1983
(note a)



a) The loans are at a 2-3 percent interest rate with a 10 year grace period and a 30-year principal repayment term. The graph is adjusted to show the concessionality of the loans or their value in terms of a direct grant.

FMS LEVELS TO ISRAEL AND EVENTS DURING
INCREASES OF ASSISTANCE
(FISCAL YEAR - US \$ BILLIONS)



EVENT:

Source: Department of Defense, Events added by GAO.