

INSS Insight No. 1070, July 4, 2018

US Aid to Israel: Budgetary and Strategic Significance

Shmuel Even and Sason Hadad

A new budget year (2019) begins in the United States in October 2018, and with it the multi-year aid program for Israel for the years 2019-2028, amounting to \$38 billion. Of this, \$33 billion comes from the State Department foreign aid program, and \$5 billion from the Defense Department, to fund joint projects on missile defense (this was not included in the previous multi-year aid program). However, the terms of the new aid program are more stringent: Israel agrees that the aid is not intended to purchase fuels, and its ability to use the aid to purchase from Israeli defense industries, by converting part of the aid from dollars to shekels, will decline gradually to zero by the end of the ten years. This represents a challenge to Israel to retain its R&D capabilities and the strength of its defense industries, which currently rely on IDF purchases in shekels, converted from aid in dollars.

American aid has been an important element in Israel's military power over the last 45 years (primarily since the Yom Kippur War). It is the source of funding and supply of some of the world's most advanced weapons to the IDF. The aid currently constitutes almost a fifth of Israel's gross defense budget, and about one percent of product. The aid is given through a long term agreement over a decade, enabling the IDF to make long term procurement plans, and it also makes a significant contribution to Israel's defense industries.

In June 2018, the Budget Allocations Committee of the US House of Representatives approved the foreign aid item in the US budget for fiscal 2019, which begins in October 2018. This is the first year of the new Israel aid program for the decade 2019-2028, based on the Memorandum of Understanding (MOU) that Israel signed with the Obama administration in September 2016. It mandates aid of \$38 billion over ten years, of which \$33 billion is from the budget of the US State Department (Foreign Military Financing – FMF) and \$5 billion, to fund joint projects, is from the Defense Department budget. The program for 2019-2028 is the third ten-year program, preceded by programs for the years 2009-2018 and 1999-2008.

Data and Budgetary Significance

The defense aid from the US State Department budget has increased from \$30 billion over a decade in the previous program to \$33 billion (\$3.3 billion each year). In other words, the foreign aid package has increased nominally by \$3 billion (excluding the participation in joint projects, which until now was allocated separately). It is doubtful whether this increase will compensate for price index rises over the next decade, so that in real terms the new program is no larger than the previous one.

For the first time, the MOU included a framework between Israel and the US State Department for funding joint projects. In this framework, \$5 billion (\$500 million annually) from the US defense budget will be allocated for funding of joint American-Israeli anti-missile defense programs (Israel is committed to invest a parallel amount in the projects). While the extent of this aid is slightly less than the funding given annually in recent years, the allocated funding for joint projects as part of the multi-year aid package improves Israel's long term planning ability and enables the Ministry of Defense to plan long term procurement in this field. In addition, this agreement will considerably reduce the efforts made by the Ministry of Defense to obtain funding for this purpose each year.

Israel understands from this agreement that it will not be able to use the aid money to purchase fuels from the United States (particularly jet fuel) already in 2019. These purchases usually amount to some \$300-400 million a year. The portion of the aid that Israel can use to buy offshore platforms by converting dollars to shekels for purchases in local industries will decline gradually from \$815 million in 2019 to \$450 million in 2025, and to zero in 2028. As a result, the IDF is expected to purchase more from security industries in the United States and the operations of Israeli industries in the United States, and less from factories in Israel. This means a significant rise in the cost of procurement, because IDF purchases from local industries are considered cheaper than those from the United States for the same kinds of products. For Israel's defense budget planner, these stipulations represent considerably harder aid terms. In total, this is a change in the terms of aid of \$1.2 billion a year (2028 compared to 2018). In addition, the MOU tightens the US control of how the aid is used.

Strategic Significance

The plan reflects the continued commitment of the United States administration to maintain Israel's qualitative military edge (QME). This concept was defined by Congress in 2008 as follows: "The ability [of Israel] to counter and defeat any credible conventional military threat from any individual state or possible coalition of states or from non-state actors, while sustaining minimal damage and casualties, through the use of superior military means, possessed in sufficient quantity, including weapons, command, control, communication, intelligence, surveillance, and reconnaissance

capabilities that in their technical characteristics are superior in capability to those of such other individual or possible coalition of states or non-state actors.”

Although the change in the aid mix certainly creates difficulties for Israel’s Defense and Finance Ministries, they seem to be accepted with understanding, in view of Israel’s good economic situation in recent years and the US administration’s need to give priority to American arms industries. Although there are some who are calling to change the terms of the aid regarding the currency conversion, the Trump policy of “America first” is not compatible with this. Moreover, in the MOU with the Obama administration, Israel was obliged to undertake not to ask for additional aid during the period, unless the request is justified by a security event.

The reduction in the conversion from dollars to shekels could have a negative effect on the security industries in Israel, since the IDF will have to cut the quantities it purchases from them. These industries make a strategic contribution to Israel’s security: they lessen its dependence on external sources of arms, give it more freedom to use types of weapons made in Israel, earn the ability to develop systems that are better adapted to special IDF needs, are centers of technological knowledge, and make a significant contribution to employment, GDP, exports, and foreign relations. Unless the security industries make suitable preparations, this could have a significant adverse effect on Israel’s independence in military technology. Thus the main challenge posed by the new program is to retain the qualitative edge of the security industries, mainly through support of R&D and significant growth of security exports in the next five years.

Anchoring the budget to the anti-missile program for ten years is highly significant for long term development and equipment plans for systems to intercept missiles and rockets, and the promotion of new generations of defense.

In conclusion, the US aid program for 2019-2028 is generous and meets Israel’s needs. The challenges posed by the program for Israel are:

- a. Proper planning and utilization of the aid and procurement framework to maximize IDF capabilities, particularly in view of the change in the aid mix (more dollars and fewer shekels).
- b. Avoiding significant damage to Israel’s military technology independence by means of suitable preparations in the defense industries and the Ministry of Defense, and recognizing the fact that the ability to convert aid from dollars to shekels will come to an end in 2028.