

The Special Aid Package from the United States

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The United States administration wants to grant Israel special aid of more than \$14.2 billion for the war in the Gaza Strip. An analysis of the items in the proposal, which has not yet earned final approval in Congress, shows that it will enable Israel to renew its inventory of essential munitions – above all, interceptors for air defense. A quarter of the amount will be earmarked for implementing lessons from the war, and the Israeli establishment must formulate appropriate approaches for proper use of this package.

Among the countries receiving defense aid from the United States in the framework of the Foreign Military Financing (FMF) program, Israel is a leading beneficiary, receiving over \$130 billion since the establishment of the state in 1948. In recent decades, the amount of aid has been determined in a 10-year memorandum of understanding (MOU) between the two countries. The most recent agreement, signed in 2016, became effective in 2019 and extends until 2028. This agreement sets annual aid at \$3.8 billion, \$500 million of which is specifically earmarked for active air defense: Iron Dome, David's Sling, and other systems.

The current MOU also stipulates a gradual reduction in Off Shore Procurement (OSP), whereby 26.3 percent of the annual aid, amounting to \$815 million, can be converted into shekels, meaning that the Israeli defense establishment can use it to buy products or services from Israeli companies and pay for them in shekels obtained by converting US aid from dollars to shekels. The OSP aid item is slated to gradually decrease each year, starting in 2023, until it is fully eliminated in 2028. During the decade of this MOU, OSP will average 16 percent of total US defense aid for Israel. The reduction of this item has serious consequences for the Israeli defense industries, mainly the small and medium-sized ones, which are unable to open plants in the US for the purpose of benefiting from US aid.

Special Aid in the Current War

Shortly after the war began in the Gaza Strip, the US administration asked Congress to approve an unprecedented \$14.25 billion in supplementary military

aid for Israel, amounting to a little less than the amount that Israel was scheduled to receive in aid over four years, according to the MOU.

As of the time of this writing, the Congressional bill has been delayed by internal politics. President Biden has linked approval of the supplement for Israel to \$106 billion in aid that he has designated for Ukraine in the war against Russia, building a barrier to prevent illegal immigrants from entering the US clandestinely, and aid to Taiwan. This large amount, most of which comprises aid to Ukraine, is a source of dispute between Democrats and Republicans. Another problem is where the money is to come from; the Republicans insist that it be paid for by a cut in the IRS budget. Both political parties support aid to Israel, but the President is unwilling to have it approved in a separate bill, and the overall bill is stalled in the House of Representatives, which means that the proposed aid to Israel is still unavailable. On the other hand, Israel's Ministry of Finance has already included the designated amounts in its calculation of the war financing and the proposed 2024 budget.

On December 30 , 2023, US Secretary of State Blinken announced the sale of artillery shells and other equipment to Israel at the sum of \$147.5 million, which he is authorized to do without Congressional approval (this was the second time that aid had been approved; the first time was on December 9). Whether this amount will eventually be included in the total aid approved is unclear.

On the assumption that the Congressional dispute will ultimately be resolved and the aid package for Israel be approved, it is worthwhile reviewing its contents to understand what the Israeli Ministry of Defense will be able to actually receive, both as it finances the war and looks to the future. This is part of the preparations for the budget in 2024, which is likely to be a year of war, and for a look ahead.

 SPECIAL AID PACKAGE - ACCORDING TO THE BILL SUBMITTED TO CONGRESS (IN MILLIONS OF DOLLARS)				
ITEM	PROGRAM	CATEGORY	AMOUNT	AVAILABLE UNTIL
1.	DoD	Air defense	4,000	Sept. 30, 2027
2.	DoD	Military munitions procurement	801.4	Sept. 30, 2026
3.	DoD	Naval munitions	10	Sept. 30, 2026
4.	DoD	Air force munitions	38.6	Sept. 30, 2026
5.	FMF	"Regular" aid budget	3,500	Sept. 30, 2025
6.	R&D	Iron Beam system	1,200	Sept. 30, 2025
7.	R&D	Like Item 6	150	Sept. 30, 2025
8.	DoD	Defense Dept. budget	4,400	Sept. 30, 2025
9.	State Dept.	State Dept. budget	150	Sept. 30, 2025
Total of all the items: \$14.25 billion				

Notes and remarks on the various items (all of the quotations and comments are based on and taken from the bill submitted to Congress).

Item 1. Designed primarily to replenish inventory given war-generated shortages of Iron Dome, David's Sling, and Arrow interceptors, and to increase Israel's inventory of interceptors, given the risk that the conflict will spread and be prolonged. The bill contains no details about the designated usages, but the amount is eight times the annual amount designated for this item, and can therefore be used not merely to increase the supply of interceptors but also for additional batteries. Note that President Biden already sent \$1 billion more than the amount in the aid agreement following Operation Guardian of the Walls in 2021. Iron Dome interceptors are manufactured in both Israel and the US; some of the production was moved to the US at an American demand. The bill itself does not specify where the money is to be spent, and the US and Israel may have to reach a separate agreement for this purpose.

Item 2. According to the bill, this item is for “Procurement of Ammunition, Army.” Presumably this refers to ammunition for the ground forces, which figure heavily in the current fighting. It is not clear whether this item covers the cost of the munitions sent by the US administration to Israel in the airlift in the initial days of fighting, but it will obviously provide Israel with a substantial sum of NIS 3 billion for replenishing its inventory during and after the fighting. This comes in addition to US supplies already stationed in Israel, which Israel is entitled to use in an emergency under an agreement between the two countries signed many years ago, referred to in Item 8.

The same holds for **Item 3**, which concerns the navy, and **Item 4**, which concerns the air force.

Item 5. This is in effect a one-time doubling of the \$3.3 billion “regular” annual aid budget (FMF). This budget is used mainly for procurement of what is called “principal items,” such as F-35s and transport helicopters; Israel signed a purchase deal with Boeing in order to replace its obsolete Yasur helicopters.

This budget is designed to fund procurement resulting from lessons learned during the war, such as increasing the military helicopters order of battle and active defense systems for armored fighting vehicles (AFVs) (these are examples for clarification purposes; we know of no actual decisions that have been taken). From another perspective, this amount can be viewed as an increase in the “regular” aid amount in 2019-2028 from \$33 billion to \$36.5 billion.

The bill explicitly states that Israel can use the additional \$3.5 billion “for the procurement in Israel of defense articles and defense services.” This constitutes a major increase in the amount that can be converted to shekels – equivalent to four years of such conversion in the ordinary schedule – or two thirds of the total conversion sum over the entire period of the current aid agreement. At the current exchange rate, this amounts to NIS 12 billion, which Israel can spend in the coming years, according to the proposed bill. This is of great significance for the Ministry of Defense and the defense industries in Israel, especially the small and medium-sized industries. At the same time, the US has shown great sensitivity in the past to the ways in which Israel uses the converted money, because the US regards the aid as a means of strengthening Israel’s defense, not necessarily Israeli industry. Caution and coordination in using this money is therefore necessary.

Items 6 and 7. A separate budget for development of the Iron Beam laser system for defense against short-range high-trajectory weapons. For internal US reasons, this budget is divided into two items. Note that the Iron Beam system is not yet operational; despite the scientific breakthroughs achieved by Rafael Advanced

Defense Systems in its development, there is some disagreement about preferring it over alternative defenses against missiles and rockets.

Item 8. The bill states that this supplement is for “operation and maintenance, defense-wide... to respond to the attacks in Israel.” It later states that it will be used to replenish the Israel Ministry of Defense’s inventory, and to fund services provided to Israel. The item provides no further details. Presumably this involves first of all replenishing inventories stationed in Israel (mostly artillery and tank shells), which were depleted even before October 7 due to the war in Ukraine (according to a May 2023 report, the US withdrew from Israel approximately 1,000 containers of military equipment during the year containing hundreds of thousands of 155mm artillery shells). The IDF is likely using what remains in the current fighting. However, since this item involves a supplement to the US defense budget, not aid to foreign countries (as in Item 5), presumably the Pentagon will decide how much of it will actually be sent to Israel.

Item 9. This budget is not designated for aid to Israel; it is for funding State Department expenses incurred as a result of the war in the Middle East, such as for the evacuation of US citizens from the vicinity of the fighting.

The Israel Ministry of Finance charges 17 percent VAT on the part of the aid spent in the US, paid from the “net” defense budget, i.e., the shekel budget from the state treasury. For example, for \$1 billion in purchases in the US, the defense budget is supposed to pay the Ministry of Finance about NIS 600 million (at a NIS 3.70/1\$ rate of exchange). This is paid from the defense budget, even though it “generates” no defense. In other words, for the part of the special aid spent in the US (on the purchase of interceptors, munitions for the air force, and principal items produced there), the VAT charged by the Ministry of Finance will substantially reduce the shekel budget available to the Ministry of Defense for other uses, unless the Ministries of Finance and Defense agree on a different arrangement.

Conclusion

The bill for special aid to Israel, which despite support from both major political parties has not yet received Congressional approval, will enable Israel to cover a substantial proportion of the costs of the current fighting: \$4.85 billion is designated directly for this purpose (Items 1-4), and an additional sum of \$4.4 billion, detailed in Item 8, remains in the hands of the US Defense Department, which can transfer it to Israel to fund replenishment of inventories of ammunition for the ground forces and other current needs. Without analyzing the actual costs of the fighting here, this is – only for the sake of proportion – almost five times the

cost of replenishing inventories following the 51 days of Operation Protective Edge, which was set at approximately NIS 7 billion in negotiations between the Ministry of Finance and the Ministry of Defense.

Other items, such as the development of Iron Beam (a total of \$1.35 billion), will not be used directly to cover the war's costs; they will be used to develop future systems that are also of US interest. Together with Item 9, this involves \$1.5 billion that is irrelevant to making up the Israeli budget deficit created by the fighting.

Item 5, the supplement to the military aid stipulated in the current agreement, is the only item whose implementation depends on decisions by Israel – which items of equipment or services it chooses to purchase for the war or for implementing its lessons. These decisions should stem from changes in defense doctrine, the IDF's operational doctrine, and the new multi-year plan that will be formulated during the year. The size of the supplement, equivalent to an entire year's aid, and the fact that it can be converted into shekels, require caution and thought concerning its uses, because it should be regarded as a windfall, whose use requires good planning.

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