

# Internal and External Sources of Israeli Policy Change Strategies for Inducing Greater Flexibility towards the Middle East Disarmament Process

Akiva Eldar, Marc Finaud, Michael Haas, Bernd W. Kubbig,  
Hillel Schenker, and Christian Weidlich

Much like America's other major allies, Israel has from time to time had to contend with rather brazen influence attempts. Thus, in the late 1960s, the Lyndon B. Johnson administration attempted to leverage the sale of 50 F-4 Phantom aircraft to induce Israeli accession to the Nuclear Non-Proliferation Treaty (NPT) – without much success, as it turned out. In the course of the negotiations, Yitzhak Rabin, then the Israeli Ambassador to the United States, asked U.S. Assistant Secretary of Defense Paul Warnke: “You are only selling arms. How do you feel you have the right to ask all these things?” to which an unapologetic Warnke simply replied, “I think I do. Otherwise I wouldn't bring it up.”<sup>1</sup>

There have been relatively few occasions since when an Israeli government has felt compelled to adapt its policies under pressure from its international allies and supporters. Over the last decade or so, American economic and military aid in particular has been largely unquestioned and unconditional. But with a view to the envisioned Middle East Conference (MEC) on the establishment of a regional zone free of weapons of mass destruction (WMD) and their delivery vehicles (DVs), this contrasting episode of American insistence on the linkage of bilateral assistance to foreign policy behaviour is worth recalling.

If the ‘new’ Helsinki process is to go ahead, Israel's government – like those of Iran, Egypt, and other regional states – will have to modify its stance on a number of salient issues and undertake steps it has been unwilling to contemplate so far. As is the case with other regional actors, we believe that, in addition to existing incentives, gentle and well-calibrated pressure exerted by both external and internal

actors will play an indispensable part in encouraging such moves.

## Checkbook Diplomacy as Conditional Support: The 1991 Loan Guarantee Dispute

While it has hardly been the norm, there have been a number of instances in which linkage politics proved at least partially successful. Thus, after the end of the 1991 Gulf War, the United States used all its available leverage to compel a change in Israel's settlement policies, its attitude towards the peace process, and its participation in the Madrid Conference. Then-President George H. W. Bush and Secretary of State James Baker refused to approve Israeli Prime Minister Yitzhak Shamir's request for \$10 billion in American loan guarantees and used the pledge as an opportunity to seek an Israeli settlement freeze.

This was one of the most prominent U.S. attempts to gain policy compliance from Israel. It quickly sparked a political showdown between the Shamir government and the Bush administration.<sup>2</sup> The loan guarantees had been requested by Israel to help absorb a million immigrants from the collapsing Soviet Union, Eastern Europe, and Ethiopia. However, the American administration conditioned the aid to a freeze on settlement expansion in the West Bank and Gaza, and asked Congress for a 120 days deferral of the loan guarantees. The Israeli government refused to accept any linkage between the two issues. But during his visit to Jerusalem on September 16, 1991, Secretary of State Baker was very clear on this count: “If you want U.S. guarantees, you will have to accept our position on settlements. [...] All we ask of you is that you stop settling in the territories.”<sup>3</sup>

## Abstract

*Like the other states of the region, Israel will make a sovereign decision whether to join a ‘new’ Helsinki process for arms control and disarmament in the Middle East. Nonetheless, its decision is embedded in an international and domestic environment. In this POLICY BRIEF, we will identify and assess those factors and approaches that might induce Israel to participate in such a process.*

*Our analysis indicates that the United States has considerable leverage in this respect and we argue that it is time for the U.S. to reconsider its policy of ‘unconditional support’ without, however, compromising its strong commitment to Israel's security. The influence of other external actors like the EU or Germany is comparatively limited. Substantial policy shifts could also originate within Israel, which is facing a severe socio-economic crisis and has witnessed its most extensive social protests ever.*

*Naturally, the citizens of Israel have always viewed national security as a paramount concern. But the recent protests have brought another factor to the fore: personal economic security. The two concerns are linked and unless the Israeli government is able to bring the conflict with the Palestinians and Arabs to a political conclusion, Israel will continue to face difficult economic, social, and military challenges in the long run.*

*A successful outcome of the envisioned Middle East Conference could benefit Israel in the long term by creating a more favorable geopolitical environment. The Israeli government must decide whether this might not be a time to plan for the country's long-term security and development, and adjust its priorities accordingly. ■*



»American pressure [...] contributed to the Israeli settlement freeze and induced the government of Israel to show greater flexibility concerning the peace process.«

On October 30, 1991, the Madrid Peace Conference was convened and afterwards the parties broke into separate bilateral and multilateral negotiations. While this new phase of Arab-Israeli talks got under way, the administration tried to keep the loan issue off the table. In February 1992, Baker testified before Congress that the “President would grant the full \$10 billion in guarantees over the next five years only if Israel froze all settlement activity in the territories. If that were unacceptable, [...] we would approve a much lesser amount on a year-to-year basis.”<sup>4</sup>

In June 1992, Israelis went to the polls and Shamir and his Likud-led government lost decisively to Yitzhak Rabin (the same Rabin who once strictly opposed American linkage politics) and his Labor Party. The conflict between the Israeli and American governments was one of the primary factors which led to the defeat of Yitzhak Shamir. The Israeli public tends to be very sensitive about the need to maintain cooperative relations with the United States, which is Israel’s primary ally in the international arena. With the change of government, it was not long before the loan dispute was resolved. Bush and Rabin met in August 1992 and reached an agreement on the loans.<sup>5</sup>

American pressure – targeted, circumscribed, and well-calibrated – contributed to the Israeli settlement freeze and induced the government of Israel to show greater flexibility concerning the peace process. As this case demonstrates, balanced inducement strategies can work even among the closest of allies. They can enable the implementation of international agreements and help sustain step-by-step negotiating processes.<sup>6</sup>

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### **The Framework of this POLICY BRIEF: Evaluating Possible Sources of Israeli Policy Change**

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In the context of the process for the establishment of a regional WMD/DVs Free Zone, it might be time to consider a more balanced approach regarding Israel’s stance. The conference eventually to be held in Helsinki is “to be attended by all States of the Middle East.” But while any results should come about “on the basis of arrangements freely arrived at by the States of the region,”<sup>7</sup> it is now increasingly unlikely that the event and follow-on process will materialize unless external and domestic actors exert concerted pressure for positive policy change on the states of the region – including, but not limited to, Israel.

Naturally, every country has its own positions, expectations, and fears regarding

the process of negotiating a regional disarmament strategy. In the case of Israel, the related fears are particularly pronounced and substantiated by past experience. However, the MEC is to address all three categories of WMD – nuclear, biological, and chemical – as well as their delivery systems, and not just nuclear weapons. This should give Israel some flexibility for discussions, as it is not the only country in possession of weapons of mass destruction in the Middle East (see POLICY BRIEF No. 2). Even more importantly, the conference also presents Israel with an opportunity to extract very substantial political concessions from its neighbors.

While we would argue that it is in Israel’s national interest to join the Middle East Conference, the Israeli government of Prime Minister Benjamin Netanyahu has not committed itself to the ‘new’ Helsinki process so far. Israel is, of course, a sovereign state that will decide according to its own interests whether to participate in international negotiations. However, we also believe that certain external and internal influence factors could have a positive impact on the official government position. Hence, the central question of this POLICY BRIEF is to analyze and assess what possibilities exist for external and internal actors to modify the Israeli position and create diplomatic leeway with regard to a Middle East arms control and disarmament process.

Two major areas of analysis will be important in order to identify opportunities for the alteration of political parameters. First, it is worth exploring potential leverage that external actors could draw upon in the realm of international cooperation. Here we will focus on the great and middle power involvement by discussing American military aid to Israel, its support by the European Union (EU), and Germany’s supply of Dolphin-class submarines. Secondly, we ask how internal dynamics could contribute to a softening of Israel’s stance. In this respect, we will analyze changes in Israel’s domestic landscape as a chance to rethink government priorities in the area of defense-related spending in particular.

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### **The U.S.-Israeli Military Relationship**

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The alliance between the United States and Israel is a very strong and resilient one. As a result, the U.S. might be the only external power with a substantial ability to exert constructive pressure on Israel to participate in the Middle East Conference. Israel is the



largest cumulative recipient of U.S. foreign assistance. From 1949 to 2012, the United States provided to Israel a total of \$115 billion in bilateral financial assistance.<sup>8</sup> Almost all American aid to Israel comes in the form of military assistance, although the country has also received significant economic aid in past decades. The level of military bilateral cooperation is very extensive: American military aid represents roughly 1.5 percent of Israel's gross domestic product (GDP) and approximately 21 percent of its defense budget.<sup>9</sup>

In 2007, the George W. Bush administration and the Israeli government settled a 10-year military aid agreement. The \$30 billion package has gradually raised Israel's annual foreign military financing grant from a baseline of \$2.55 billion in 2009 to approximately \$3.1 billion for 2013 through 2018. Israel traditionally receives its annual aid package in January (in which it differs from other recipients) and is the only country that is granted the right to use a significant portion of its military aid for in-country procurements. Designed to maintain Israel's 'qualitative military edge' in the Middle East, most of the annual aid package is typically used for importing American arms. The latest reported deals include the purchase of 19 highly advanced F-35 Lightning II combat aircraft (with an option for up to 55 more), at a cost of \$2.75 billion. Furthermore, over the past several years Washington has sold several types of 'bunker buster' bombs that could be used to strike hard and deeply-buried targets – in many cases Israel was the first foreign customer for these weapons. While other suppliers have at times used arms sales as leverage in attempts to influence Israeli policies, particularly on the Palestinian issue, the U.S. attaches a very limited set of conditions (specifically on the re-export of defense equipment to third parties) to its military exports.

There is also broad bi-partisan support in the federal government in Washington for joint U.S.-Israeli missile defense projects. The U.S. Department of Defense's 2013 request for co-development in the missile defense realm is \$99.8 million. From 2006 to 2012, the appropriations for joint missile defense amounted to \$1.2 billion for the Iron Dome, David's Sling, and Arrow-2/-3 systems. The United States has also positioned an advanced X-band radar system in Israel and regularly conducts large-scale military exercises with the Israeli Defense Forces in the missile defense area. The two countries also engage in extensive operational and intelligence cooperation to bolster counter-terrorism capabilities.



**Akiva Eldar** was the Chief Political Columnist and an Editorial Writer for Haaretz. From 1993 to 1996, he served as Haaretz U.S. Bureau Chief and Washington correspondent. Prior to this, Mr. Eldar spent ten years as the diplomatic correspondent for Haaretz, as well as its municipal correspondent for Jerusalem from 1978 to 1983. Before joining Haaretz, Mr. Eldar was a reporter and editor for Israel Radio and spent two years as spokesperson for the former Mayor of Jerusalem, Teddy Kollek. He is the author of several books on Israel and the Middle East.



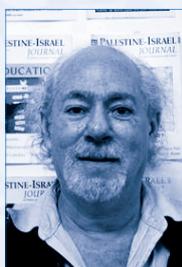
**Marc Finaud** is a Senior Advisor of the Emerging Security Challenges Programme at the Geneva Centre for Security Policy (GCSP). He joined the French Ministry of Foreign Affairs in 1977 working mainly on issues related to the Conference on Security and Co-operation in Europe and disarmament, dealing with nuclear as well as conventional and biological weapons. In 1996 he was appointed Deputy Head of Mission at the French Embassy in Tel Aviv where he joined the Team of Negotiators of the EU Special Envoy to the Middle East.



**Michael Haas** is a Graduate Research Assistant at the Peace Research Institute Frankfurt (PRIF) and on the staff of the ACADEMIC PEACE ORCHESTRA MIDDLE EAST as a Co-Editor of the POLICY BRIEF series. He holds a Mag. phil. in Political Science from the University of Innsbruck and an MScEcon in Intelligence and Strategic Studies from Aberystwyth University, Wales/UK. He specializes in strategic theory, air and sea power, systems of military power projection, and U.S. grand strategy since 1940.



**Bernd W. Kubbig** is Project Director at the Peace Research Institute Frankfurt (PRIF) and Adj. Professor (Privatdozent) at Goethe University, Frankfurt. Since 2006 he has been coordinating the international expert groups "Multilateral Study Group on the Establishment of a Missile Free Zone in the Middle East" and the ACADEMIC PEACE ORCHESTRA MIDDLE EAST. He specializes in U.S. Foreign and Security Policy, especially on the Middle East, missile defense, and space.



**Hillel Schenker** is Co-Editor of the Palestine-Israel Journal. He was the spokesperson for the Israeli branch of International Physicians for the Prevention of Nuclear War, winners of the 1985 Nobel Peace Prize. Mr. Schenker served for 13 years as Editor of New Outlook, an Israeli peace monthly. He was a co-founder of the Peace Now movement and is an International Advisory Board Member of the Global Majority Center for non-violent conflict resolution based at the Monterey Institute of International Studies.



**Christian Weidlich** is a Graduate Research Assistant at the Peace Research Institute Frankfurt (PRIF) and on the staff of the ACADEMIC PEACE ORCHESTRA MIDDLE EAST as a Co-Editor of the POLICY BRIEF series. He holds an MA in International Studies/Peace and Conflict Studies from Goethe University, Frankfurt, and a BA in Political Science from Münster University. His research interests include arms control in the Middle East and the automation of warfare.

**Box No. 1: Israel's International Standing**

*"The prolonged occupation of the Palestinian territories has created tension and even confrontation between Israel and sizeable parts of the international community: No other country, including the United States, recognizes Israel's occupation of the Palestinian territories; No other country, including the United States, recognizes Israel's annexation of East Jerusalem; No other country, including the United States, recognizes the settlements established on Palestinian territory; No other country, including the United States, recognizes the separation wall as a border."*

*"The Israeli-Palestinian conflict and, in particular, the occupation weaken the international standing of Israel, cast doubt on the legality of its actions, and undermine its status in the world as a democratic state."*

Source: Shlomo Swirski (2012) *The Cost of Occupation: The Burden of the Israeli-Palestinian Conflict, 2012 Report*, Tel Aviv: Adva Center, p. 36.

While extensive defense cooperation and large-scale military assistance are hardly a new development, the recent increases in support are undoubtedly related to the evolving regional strategic environment over the last decade: notably, the perception of a rising Iranian threat. Israel's security establishment views nearly all regional threats today through the prism of Iran – whether they be rocket and missile attacks from Hamas or Hezbollah, or more recent developments related to the Arab Spring. Needless to say, the Iranian nuclear challenge is among Israel's top security priorities, and in combination with these other regional threats has largely determined the nature and levels of bilateral defense cooperation in recent years.

**The Rationale behind Washington's Support**

Increased military assistance to Israel and particularly enhanced missile defense cooperation serve three core U.S. objectives with regard to Iran: (1) assuring Israel that the United States will help protect it from these regional threats by maintaining and strengthening extensive defense ties; (2) dissuading Israel from launching a unilateral military strike against Iran; and (3) tacitly preparing Israel for a future in which prevention efforts may fail and Israel might face a nuclear-armed Iran – despite declarations to the contrary.

It is not clear whether the extensive bilateral military cooperation is achieving all of the American objectives spelled out above. The Israeli military establishment no doubt welcomes and appreciates such assistance and the improved capabilities it provides. But it is debatable whether such capabilities in themselves provide the kind of assurances that may be necessary to achieve the second objective (the prevention of unilateral Israeli action) because of a less tangible factor: the current lack of trust between the incumbent leaders in Jerusalem and Washington.

In addition, such capabilities may not be able to override Israel's long-standing military posture of self-reliance and may only improve its ability to act alone. The current debate in Israel over a possible imminent military strike against Iran may be in part intended to further ratchet up international pressure against Tehran and push the United States down the path of military action. But continued Israeli threats to take military action on its own are not all bluff. Key leadership figures still believe that a military strike may be necessary to slow Iran's program and that Israel has the means to execute it (albeit not with the same

effectiveness as the U.S. armed forces), despite widespread dissent from Israel's military and security establishment and a general lack of support from the public.

Consequently, despite dozens of high-level visits by American administration and Pentagon officials to assure Israel of their support and dissuade it from taking such action, the idea of a unilateral Israeli attack remains in play. The U.S. believes that diplomatic initiatives and sanctions have not yet run their course and the official view in Washington is that Iran has not made a firm decision to weaponize its nuclear program. Repeated declarations that the United States will not allow Iran to become a nuclear weapon state – not only by high-level defense officials but also by President Obama himself – do not appear to have convinced some of the main Israeli leadership figures, including Prime Minister Benjamin Netanyahu.

That said, U.S. military assistance, particularly in the missile defense arena, may help Israel prepare for a scenario that both countries hope will never come to pass and neither is prepared to publicly countenance: that of a nuclear-armed Iran. Even if American assistance and co-operation cannot fully reassure Israel at this time or indeed dissuade it from taking unilateral action, such assistance may succeed in laying the groundwork for a future deterrence relationship with Tehran and the management of the myriad uncertainties that would likely accompany such a scenario.

**The Future of the American-Israeli Relationship**

America's influence on Israeli political and military decision-making processes seems to have been rather low during most of 2012. President Barack Obama's hands were completely tied with regard to Israel throughout his re-election campaign. Even after being confirmed in office, the President's ability to influence Israeli government behavior has been rather circumscribed. There are several restraining factors involved: first, financial and military assistance for Israel is one of the increasingly rare areas of agreement between Republicans and Democrats in Washington. Second, the so-called 'Israel lobby' within the United States commands considerable influence on legislative politics and, to a much lesser degree, on the executive as well. Third, the relationship between Obama and Netanyahu is a precarious one, after repeated clashes over the handling of Iran's nuclear program. It also appears that the Israeli leadership and public are upset by the fact



that Obama visited Egypt, Turkey, and Saudi Arabia during his first term, but not Israel. Fourth, the Israeli public has reservations about the President, and according to one poll 45 percent of Israelis would have voted for Mitt Romney, compared with only 29 percent for Obama.<sup>10</sup> Fifth, it is generally understood that Netanyahu had a strong preference for a Republican victory in the 2012 presidential elections.

Nonetheless, there are a number of possibilities for President Obama in his second term. Being Israel's most important ally, the administration can draw on a considerable potential for leverage on Israeli policies concerning a possible disarmament push as well as the peace process more broadly. In fact, the United States, more than any other actor, is in a position to persuade Israel to attend the prospective Middle East Conference on a regional WMD/DVs Free Zone, both by providing expanded security guarantees and by attaching more stringent conditions to its future support. While the administration might opt to apply such constraints primarily to U.S. military aid, a more comprehensive package of financial, political, and military incentives and conditions would probably offer a more promising way of encouraging Israeli participation in the MEC. In any case, it is worth thinking creatively about how to combine the strong American commitment to Israeli security with an end to the counter-productive policy of 'unconditional support.' This could eventually result in a more flexible Israeli position with regard to regional peace and disarmament. The Israeli leadership also 'owes' the Americans for their support in the initial phase of the recent armed conflict between Israel and Hamas and for its role in ensuring a cease-fire, for their support at the United Nations with regard to the Palestinian status upgrade, and the resolution against the settlements. This 'debt' could be another lever to gain Israeli agreement to participate in a regional disarmament conference.

### **The European Union and Its Support for Israel: Changing Parameters within the Relationship?**

The context of relations between Israel and the European Union and its member states is still strongly affected by historical factors both in their objective influence and their subjective perception. Great Britain is still widely associated with a mix of colonial power attitudes and pro-Zionist actions, by the Arab states in particular. France is viewed through the prism of its initial strong support of Israel

and contribution to the build-up of its military strength (including its nuclear weapons program). This is followed by a more distant attitude concerned with its 'Arab policy' and early support for a Palestinian state. Germany's role is still shaped by its association with the forced displacement and genocide of Europe's Jewish population which has led it to provide substantial recompensations, as well as political and military support to Israel.

Whenever the policy of the EU or its member states was perceived in the Arab world or post-1979 Iran as too favorable towards Israel, it was rejected. When Israel considered it was leaning too much in favor of the Palestinians, it viewed Europe as a biased, unreliable partner and tried to keep it as much as possible on the periphery of peace negotiations, only tolerating its role as provider of economic assistance to the Palestinians.

The EU-Israel relationship is based on five decades of trade, cultural exchanges, political cooperation, a developed system of agreements as well as common support for democracy, respect for human rights and the rule of law, and an open international economic system. The 1995 EU-Israel Association Agreement<sup>11</sup> (entered into force in 2000) forms the legal framework of relations between both parties. It is complemented by further agreements on more specific issues. In 2005 an Action Plan entered into force within the European Neighborhood Policy (ENP), an instrument of closer integration into the EU Internal Market; it was extended in 2010. Israel was made eligible for the ENP Instrument and the European Union has allocated a total of €14 million for the period 2007-2013 to support ENP-related activities. The Union is Israel's first trading partner with total trade amounting to approximately €29.4 billion in 2011. It is Israel's major source of imports (€15.3 billion, 35 percent of total imports) and the second largest market for exports after the U.S. (covering 26.6 percent and 32.1 percent of the export market, respectively). Arms trade in particular is strong: France, Germany, and the UK represented some 85 percent of the €1.55 billion of EU arms export licenses to Israel for the period 2001-2010; Italy sold 30 combat trainer aircraft worth \$1 billion in 2012. Annually only two dozen licenses out of some 800 are rejected on the basis of possible human rights violations or conflict risks.<sup>12</sup> Israel is also a major provider of military goods and technology to the EU, in particular unmanned aerial vehicles.

The EU has been involved in actions to support the peace process between Israel and

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the Palestinians through the role of its Special Envoy, its membership of the Quartet on the Middle East, and its economic and political assistance for the Palestinians. For the European Union, a Palestinian state should be based on the 1967 borders with land swaps, Jerusalem should become the capital of both states, and a negotiated settlement be found to the Palestinian refugee problem. Despite differences among member states, Israeli settlements (including in East Jerusalem) are considered illegal under international law. The EU has also been highly critical of Israeli military actions in the Palestinian territories and Lebanon, often referring to them as disproportionate and excessive. During Operation Defensive Shield in 2002, the European Parliament passed a non-binding resolution calling for economic sanctions on Israel and an arms embargo on both parties. Following the 2008/09 Gaza War, the European Parliament endorsed the Goldstone Report. The EU has also been critical of Israel's Gaza blockade, referring to it as collective punishment. In 2012 some 26 former European leaders called for sanctions against Israel if settlement activity did not cease. The EU has already exercised its power on this issue by removing the tax benefits from products produced in the settlements, benefits that are granted to other items that Israel exports to Europe. Individual European countries such as the United Kingdom and Denmark are also in the process of labeling products which come from the Occupied Territories. In addition, many European governments have strongly protested the Israeli government decision to build 3,000 apartments in Area E1 near Jerusalem. In this respect, some have considered recalling their ambassadors to Israel for consultation. Also, the President of the European Parliament, Martin Schulz, has declared that the Parliament would not ratify agreements for upgrading relations with Israel until there is movement on the peace process.<sup>13</sup> However, the impact of these measures has been muted.

In the 2005 ENP Action Plan, Israel and the EU agreed to cooperate on the issue of non-proliferation of weapons of mass destruction. They confirmed that they will “promote incrementally regional peace and security through inter alia the relevant provisions in the Barcelona Declaration of 1995, including those relating to [confidence building measures] and weapons of mass destruction.”<sup>14</sup> This diplomatic language is intended as a lowest common denominator: first, between Israel, which has not ratified any of the major WMD treaties and is considered a nuclear power, and the EU as a whole,

supportive of the universality of the NPT, the Chemical Weapons Convention and the Biological and Toxin Weapons Convention as well as a WMD/DVs Free Zone in the Middle East; and secondly, within the EU, between those member states that are more critical of Israel's status and those that are inclined to acknowledge the specificity of its situation as a justification for the linkage between full regional peace and disarmament. So the main area for cooperation between Israel and the EU is non-proliferation by third countries, including the issue of access of non-state actors such as Hamas and Hezbollah to WMD, which is a common source of concern.

The EU and Israel share the strong determination to prevent Iran from developing nuclear weapons, which Israel considers an existential threat. This is why the E3 (France, Germany, UK) initiated negotiations with Tehran on its nuclear program in 2003. This format was expanded in 2006 to include China, Russia, and the U.S. (E3+3 or P5+1). In 2003, among the items for negotiation offered by Iran was its acceptance of the Arab Peace Plan on the two-state solution, but this was dismissed by Washington. Despite the American participation in the negotiations with the Islamic Republic, Israel has generally expressed skepticism as to their outcome and put more emphasis on sanctions and the threat of military action against Iran. The EU has on several occasions called on Israel not to use unilateral force against Iran, and to give a chance for negotiations and sanctions to unfold, and put pressure on Tehran to shift policy. But while Europe's overall potential for leveraging its trade and political relationships is significant, the impact of such initiatives is likely to remain less than decisive.

Considering the broad range of differences among EU member states, it is likely that the current lowest common denominator in terms of policy towards Israel will continue to be applied. The status quo of very limited influence is likely to be maintained unless the current environment is substantially altered. Two scenarios can be envisaged for an EU policy change, one towards less and the other towards more support for Israel.

- *First Scenario:* If Israel were to ignore the warnings of the U.S. and the EU and unilaterally attack Iran in an attempt to destroy its nuclear program, the Europeans would be united in condemnation, all the more so as they may suffer from the consequences of such actions (casualties among EU nationals from Iranian or proxy group retaliation,



anti-western sentiment in the Muslim world, obstacles in energy supply routes, or oil price increases). Another case of toughening the EU's position would result from a disproportionate Israeli response to attacks by Hezbollah or Hamas, especially if there were massive civilian casualties. This is why the EU called for an early cease-fire in the November 2012 'Operation Pillar of Defense.'

- *Second Scenario:* If Israel, despite its restraint towards the civil war in Syria, were dragged into the conflict by the Assad regime, keen to restore its standing in the Islamic world, or by Jihadist rebel groups and attacked especially with chemical weapons, the EU would support Israel. Some of its member states would probably go so far as to consider military intervention. Another, more positive albeit less probable hypothesis in the current context would be a breakthrough in the Israeli-Palestinian track leading to a peace agreement and the mutually accepted establishment of a Palestinian state. In that case, no envisaged upgrade of relations between the EU and Israel could any longer be refused.

### The German-Israeli Special Relationship: Transfer of Dolphin-class Submarines

Between 1998 and 2012, Israel has taken delivery of a total of four German-built Dolphin-class submarines, with two more on order. While the first two vessels were paid for in full by the German government, the costs of the third and fourth were shared equally between Germany and Israel. Derived from the highly successful Type 209 and built by Howaldtswerke-Deutsche Werft, they are among the most sophisticated diesel-electric submarines ever constructed.<sup>15</sup> The arms deal received special attention after it was revealed that the submarines were equipped with four enlarged-diameter torpedo tubes suitable for launching an Israeli-manufactured and presumably nuclear-armed cruise missile, which has been identified as a derivative of the Popeye Turbo air-launched stand-off weapon by outside sources.<sup>16</sup> If reports to this effect are accurate, the Dolphins would grant Israel a considerable second strike capability, e.g. vis-à-vis a future Iranian nuclear arsenal.

Overall, it appears that German policy with regard to Israel's fears of a nuclear Iran closely resembles that of the United States: assuring, dissuading, and preparing Israel by providing extensive political and military support

centered, in this case, on the provision of an enhanced second strike capability. But while it would seem that the German government is seeking to leverage its supplies to induce policy shifts in favor of possible alternatives to Israel's traditional strategy of prevention/preemption, the provision of the Dolphin-class submarines bestows only limited influence. Several restraining factors are in play. First of all, it is clear that the German-Israeli special relationship is still defined in large part by the past of the Third Reich and the Holocaust. Despite its middle power status, Germany's concern for the success of the Israeli experiment has meant that Israel has usually been in an advantageous position when it came to dealing with German influence attempts. The approval of Israeli demands in the realm of military security is generally a matter of consensus among all relevant German political parties. As former Chancellor Gerhard Schröder has stated, Israel can expect to receive anything it needs for its security, when it is needed. More recently, Chancellor Angela Merkel went beyond that statement by declaring that Israel's security is part of Germany's "reason of state."<sup>17</sup> Another restraining factor is the unusual degree of secrecy in the German decision-making process when it comes to military exports. The sale of the Dolphin-class submarines notwithstanding, the overall amount of military assistance differs tremendously between the U.S. and Germany. Whereas the level of American aid indicates a high degree of Israeli dependence and a real lever for U.S. influence, the same is hardly true of Germany.

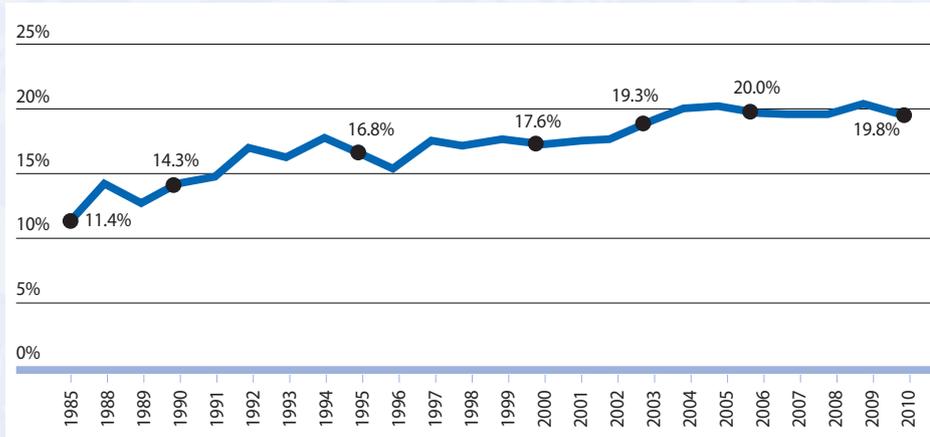
However, there are also enabling factors for a possible linkage policy that could foster limited policy change in Israel. Within the framework of the basically permissive policy towards Israeli military needs a habit of imposing certain restraints has already developed, even though the Israeli government generally has not felt the bound to abide by them. Thus, Chancellor Merkel has tied the delivery of the submarines to a number of requests, including a demand that Israel reconsider its settlement policy and allow the completion of a sewage treatment plant in the Gaza Strip, which is partially financed by Germany. While the other demands have not been met, Israel has since agreed to re-transfer funds to the Palestinian Authority.<sup>18</sup> Merkel is also reported to have asked Prime Minister Netanyahu to postpone a military strike because of the escalation potential it entails and to allow more time for diplomatic efforts, and for the effects of the sanctions regime to manifest themselves.

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### Box No. 2: Poverty in Israel, the Ultra-Orthodox, and the Challenge of Brain Drain

Israel faces a constant rise in poverty: 25 percent of Israelis live below the official poverty line – the country ranks first in poverty within the Organisation for Economic Co-operation and Development. Israeli tourism figures are lower than those of almost every other country in the region, including Egypt and Tunisia during the Arab Spring, and the erosion of Israel's international standing has cost dearly in the form of relatively low credit ratings.

Graph: Poverty Rate for Families in Israel (1985-2010)



In addition to the added expenditures related to Israel's conflict with its neighbors, the economy of the country struggles with an additional issue, related to the ever-growing Ultra-Orthodox community (10.7 percent in 2010; projection for 2030: 14.7 percent). Unlike other Western states, Israel has a high rate of dependent population due to the high proportion of children and young people who have not reached working age, especially among the Ultra-Orthodox. This segment is also characterized by low participation in the labor force, due to men's continuous religious studies, coupled by lack of professional skills. This results in low income for large families. The high growth rate of the Ultra-Orthodox population is of enormous consequence for Israeli society. Changes in the socio-demographic balance are reflected in the rise or fall in labor force size, in revenues from taxation, in remittances to the needy population, in economic growth itself, in living standard, and quality of life of the society as a whole.

At the same time, thousands of young Israelis keep migrating to developed countries where the remuneration for a qualified worker is higher than in Israel. The brain drain is a strategic peril because the country's human capital is its principal asset. To continue to exist as a modern state, and to flourish on the level of the developed states, there is no alternative to retaining the human capital that the country is so rapidly losing.

Source: Shlomo Swirski (2012) *The Cost of Occupation: The Burden of the Israeli-Palestinian Conflict*, 2012 Report, Tel Aviv: Adva Center.

### Changes from within: Rethinking the Occupation and the Military Budget

Calculations by the Strategic Foresight Group suggest that the failure of the Oslo and Madrid peace processes has resulted in opportunity costs of \$12 trillion for the Middle East over the period of 1991-2010. In Israel alone, the gross domestic product in 2010 could have been more than \$320 billion instead of the actual \$195 billion. Israelis on average would have enjoyed twice their current income level.

Today, Israel spends seven percent of its GDP on defense, compared with less than

two percent on average in most developed countries. This does not include the additional cost imposed by mandatory conscription (three years for men and two years for women), home front defense, and emergency stocks. These added expenditures are estimated at another 4.5 percent of GDP. It is important to note that most of the military allocations in the defense budget are kept secret, including the cost of command and control infrastructures, special forces, and the extensive deployment of reserve units. The nuclear program and the maintenance of Israel's nuclear arsenal alone is estimated to devour \$1.9 billion per annum, adding another 0.8 percent of GDP on top of the above-mentioned expenses.<sup>19</sup> The total defense expenditure runs close to 12.5 percent of GDP. Thus, on the basis of publicly known expenditures, Israel is the biggest defense spender among the developed countries by percentage of GDP.

There is, of course, much evidence regarding the correlation between defense expenditures and the level of Arab-Israeli tensions. Before the 1967 war, when the state of the security affairs was relatively calm, total military expenditures were seven percent of GDP. After 1967, when the conflict intensified, this figure went up to 20 percent. Between the 1973 war and the end of that decade, the rate was up to 30 percent. The peace agreement with Egypt allowed the reduction of military expenditures to 20 percent of GDP. By 1990 it declined further to 10 percent of GDP, showing that peace actually pays off.<sup>20</sup> Although the current percentage of defense spending is lower than in the past, there is still considerable leeway for further reductions.

### The Price of the Occupation

While Israel's political leadership insists that there is no connection between the performance of the Israeli economy and the Israeli-Palestinian conflict, some of the most prominent leaders of Israel's economic institutions hold a different view. Stanley Fischer, Governor of the Bank of Israel, believes that given a peaceful solution to the Palestinian problem, the Israeli economy would exhibit much higher levels of economic growth. Prof. Manual Trajtenberg, Chair of the Planning and Budgeting Committee of the Council for Higher Education in Israel, contends that unless the country solves the Palestinian conflict, there will not be any significant positive developments in the areas of public housing, education, and culture in the foreseeable future.<sup>21</sup>



In the last 20 years, the Ministry of Defense received budget increments totaling \$12.4 billion earmarked for the conflict with the Palestinians. Due to the potential instability in the Occupied Territories, Israel's credit rating is low in comparison with the countries it would like to emulate. The Israeli economy is subject to double jeopardy. It has to deal not only with crises stemming from global and regional developments, but also with those caused by the conflict. As a result, Israel's economy grew at a lower rate than those of the states of East Asia and Eastern Europe in the last ten years, at a rate similar to that of Western countries. In order to reach parity with those states, Israel needs to grow at a rate similar to those of the emerging economies of Asia and Eastern Europe.

Israel's official economic data demonstrate that in the last four decades, over \$50 billion were budgeted for the settlements in the Occupied Territories. The five best funded local councils and municipalities, on a per capita budget basis, are all located on the eastern side of the Green Line. At the top of the list is the local council of the Jewish settlements in Mount Hebron, where the per capita budget is eight times that of Jerusalem. An overall calculation shows that in proportion to the relative numbers, the average settlement receives 70 percent more total expenditure per capita than its average counterpart in sovereign Israel. These examples do not include the huge expenditures for the security needs of the settlements or the infrastructure built for them.

A recent report spells out the countless ways in which the occupation has damaged the Israeli economy, drawing a direct relationship between massive national spending on security and the increasingly unaffordable costs of housing and daycare. In fact, the report shows that unless there is a political solution to the conflict, Israel will continue to be plagued by increasing income inequality and education gaps more typical of a less-developed country.<sup>22</sup>

### The Social Protests

The emergence of a massive social protest movement in Israel in the summer of 2011 was, in many ways, an unexpected phenomenon. It was assumed by many Israeli observers that only external factors, international intervention or another catastrophic eruption of violence could move the Israeli public to such a degree. However, the combination of a highly-educated but thoroughly frustrated younger generation and diminishing prospects, in combination with the

background of the global financial crisis and the example and inspiration of the Arab Spring, led to social protests on an unprecedented scale. The focal points of the protests were the call for affordable housing, the rising costs of raising a family, growing consumer costs in general and a decline in the social safety net, all under the slogan 'the people demand social justice.'

The social justice campaign reawakened the need to review the equation between personal security and political choices. A new dimension was added to the slogan 'territories and settlements for peace and security,' namely that of 'national military security for personal economic security.' The combination of the two links the issue of territories and settlements to the issue of central government expenditures on security vis-à-vis the public expenditure on welfare, healthcare, and education.

Two important characteristics of the protests should be noted. First, the organizers and speakers consciously avoided dealing with the occupation and the costs of the settlements and defense budget, so as not to alienate a part of the potential constituency for the protest and not to be branded as a leftist movement. Second, the fact that there was no security crisis during the summer of 2011 helped the organizers to stay on message, and ensured that socio-economic issues would be the primary topic of the summer. This enabled the protest movement to have a profound impact on the Israeli public discourse, which until then had always been dominated by security matters. In response to the 2011 social protests, the Israeli government established the Trajtenberg Committee to investigate social problems and make recommendations. The Committee proposed reducing \$650 million from the defense budget in order to fund free public education for all children from the age of three. Even though the government adopted this recommendation, it ended up cancelling the defense cut and replacing it with a horizontal reduction across civilian ministries mostly dealing with social affairs. The security budget was actually raised.

The summer of 2012 saw a resurgence of the social protest movement, but the headlines and feelings of the average Israeli were now dominated more by Iran. As a politician who has regained power chiefly by fanning the flames of fear, Netanyahu made sure that security matters, and not affordable housing, the cost of childcare or the dwindling social safety net, would be the dominant issue on people's minds. While the question of the

*»» The total defense expenditure runs close to 12.5 percent of GDP. Thus, on the basis publicly known expenditures, Israel is the biggest defense spender among the developed countries by percentage of GDP.««*

»The guarantee of a safe homeland has been, and remains, at the very heart of the Jewish state's self-conception.«

Iranian nuclear program is undoubtedly a serious Israeli security concern, many suspect that the Prime Minister conveniently exaggerated the danger and the threats coming from Tehran. The leaders of the protest movement were also split between those who believe primarily in the power of grassroots action in the streets and a decentralized direct democracy organization of society, and those who believe in the need to enter the political arena to create a change in the national priorities.

However, the social protest movement continues, with a core of a few thousand dedicated activists, who can mobilize anywhere between 10-20,000 people to mass demonstrations. The messages of the core activists have also become more focused, with clear political elements, including the relationship of the occupation, the settlements, the defense budget, and Iran to the general socio-economic situation.

In any case, Netanyahu has suffered a steep decline in popularity due to growing economic difficulties within Israeli society and harsh criticism of his leadership abilities. While Time Magazine labeled him 'King Bibi,' the Yediot Ahronot newspaper ran the headline 'The King Has no Clothes,' and the question of a potential unilateral Israeli attack on Iran and the possible consequences hangs like a dark shadow over him. The recent fighting with Hamas enabled him to regain some of his popularity, though the long-range implications of 'Operation Pillar of Defense' are not yet clear. Even though Netanyahu is likely to continue as prime minister following the elections to be held in January 2013, his overall political standing has significantly diminished, and he is likely to become more vulnerable to both internal and external pressures. It would thus appear that there is considerable medium-term potential for policy change from within if Israel's current socio-economic problems and tensions were to endure.

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## Conclusion and Recommendations

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Like the other states in the region, Israel will make a sovereign decision based on what it perceives as its national interest as to whether it will join the 'new' Helsinki process. Nonetheless, Israeli government behavior is embedded in an international and domestic environment. In this POLICY BRIEF, we have identified a number of factors and approaches that could encourage Israel to participate in the Middle East Conference.

The constructive pressure that can be exerted by external actors in the realm of international cooperation is limited and will most likely only partially materialize in encouraging Israeli participation in a regional push for disarmament. Overall, the prospects of success for the three external actors we analyzed is decidedly mixed. However, there is some potential for inducing positive policy change, especially on the part of the United States:

- *United States:* American military aid represents approximately 21 percent of the Israeli defense budget. Washington attaches very limited conditions to its arms sales to Israel, specifically on the re-export of defense equipment to third parties. As Israel's most important ally, the U.S. could use its influence to bring about greater flexibility in Israeli disarmament policy. It is at least worth thinking about how Washington could end its policy of 'unconditional support' without compromising its strong commitment to Israeli security. Such a move might crystallize into a more flexible Israeli position with regard to regional peace and disarmament.
- *European Union:* Considering the differences of views among EU member states on Israel, the current lowest common denominator has a good chance of being applied in the future as well. Hence, the status quo of limited policy influence is likely to be maintained. However, should Israel unilaterally attack Iran to cripple its nuclear program, there is little doubt that it will be condemned by most EU member states and skepticism towards supporting Israel will further increase.
- *Germany:* Notwithstanding the sale of the Dolphin-class submarines, which may grant Israel a secure second strike capability, the level of German political influence is rather low and will continue to face significant limitations. German governments have tried to impose restrictions on Israel's policy at various junctures, but by and large Israel has not felt bound to abide by German government conditions.

With the somewhat limited influence of external actors on Israeli government behavior, it might be more realistic to assume that substantial policy shifts could originate from within Israel. Regardless of which parties will be part of the next Israeli government, the country faces the most severe socio-economic crisis in its history. Israel has witnessed the biggest demonstrations since the founding of the state with the protesters, mostly part of the



frustrated and educated younger generation, calling for action against the rising costs of living and diminishing prospects as well as the hike in poverty rates.

Understandably, the citizens of Israel have always viewed national security as a concern of utmost importance. The guarantee of a safe homeland has been, and remains, at the very

heart of the country's self-conception. Yet in the course of the social protests Israelis have become aware of another factor of almost equal importance in their daily lives: personal economic security within the State of Israel.

Many of the basic parameters of Israel's domestic and international situation would seem to support the protesters' conviction

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that significant changes in the country's socio-economic and political priorities are overdue. Unless significant efforts are taken by the Israeli government to end the conflict with the Palestinians and with its Arab neighbors, Israel will continue to face difficult economic, military, and social challenges in the long run. We suggest that the following factors need to be taken into consideration:

- *Settlements and Occupation*: In the last four decades, over \$50 billion have been budgeted for the settlements in the Occupied Territories. In the last 20 years, the Ministry of Defense received budget increments totaling \$12.4 billion earmarked for the conflict with the Palestinians. However, the Israeli establishment has so far preferred to deepen the control over the Occupied Territories, rather than making a real effort to put an end to the endemic conflict. The funds are much more urgently needed on the other side of the Green Line.
- *Military Budget*: Leading Israeli economists insist that a peace agreement with the Palestinians could enable the transfer of six percent of its GDP from defense to urgent civilian needs. On the other

hand, any major military action, such as an attack on Iran, which is likely to result in retaliation from Iran and/or Hezbollah, or a possible abrogation of the Israeli peace treaty with Egypt, would result in additional military expenditures, and possibly a deep economic crisis. It is believed that Israel's economy would incur damages of as much as \$42 billion in an armed conflict with Iran.<sup>23</sup> Any major military conflict today could result in severe damage to, or possibly even a collapse of, the Israeli economy.

It is right and proper that national security should rank very high on the Israeli government's list of priorities. However, in a democratic polity elites usually cannot dodge urgent socio-economic concerns for very long, let alone permanently. A successful outcome of the Middle East Conference and other international initiatives could benefit Israel in the long term by leading to a substantial improvement of Israel's geopolitical environment and a reduction of conflict-related opportunity costs. The Israeli government must decide whether this might not be the time to plan for the country's long-term security and development and adjust its priorities accordingly. ■

**About the ACADEMIC PEACE ORCHESTRA MIDDLE EAST (APOME)**

The ORCHESTRA is the follow-up project of the "Multilateral Study Group on the Establishment of a Missile Free Zone in the Middle East". The ACADEMIC PEACE ORCHESTRA MIDDLE EAST is a classical Track II initiative: it consists of some 70 experts – mainly from the Middle East/Gulf, one of the most conflict-ridden areas of the world. The ORCHESTRA is meeting regularly in working groups (CHAMBER ORCHESTRA UNITS) on specific topics in the context of a workshop cycle from 2011-2014. The main goal of this initiative is to shape the prospective Middle East Conference on the establishment of a zone free of weapons of mass destruction and their delivery vehicles agreed upon by the international community in May 2010.

For this reason, these experts develop ideas, concepts, and background information in a series of POLICY BRIEFS which are the results of intense discussions within the CHAMBER ORCHESTRA UNITS. In this framework, the broader normative Cooperative Security Concept will be further developed, embedded, and institutionalized in the region. At the same time, the ORCHESTRA meetings serve as venues for confidence building among the experts. The networking activities of PRIF's Project Group are documented by the ATLAS on Track II research activities in or about the Middle East/Gulf region.

Editor/Project Coordinator: Adj. Prof. Dr. Bernd W. Kubbig  
Co-Editors: Hannah Broecker, MA, Mag. Michael Haas, MSc,  
and Christian Weidlich, MA.

Peace Research Institute Frankfurt,  
Baseler Straße 27-31, D-60329 Frankfurt am Main,  
Phone: +49-69-95910436, Fax: +49-69-558481,  
E-Mail: kubbig@hsfk.de,  
Internet: www.academicpeaceorchestra.com



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