

FROM SUBSIDY TO SOVEREIGNTY

Restructuring the U.S.-Israel Defense Relationship for the Post-Aid Era

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Executive Summary

Prime Minister Benjamin Netanyahu announced on December 25, 2025, that Israel will invest 350 billion NIS/shekels (NIS), equal to roughly US\$120 billion, in domestic defense production over the next decade. Two weeks later, in his Mar-a-Lago interview with *The Economist*, he confirmed that he intends to taper U.S. military aid to zero over 10 years. On April 26, 2026, the *Calcalist* financial daily reported that Washington and Jerusalem will open formal talks next month on a successor framework that drives Foreign Military Financing to zero by 2038. The era of unconditional grant aid to Israel is closing.

This paper examines the strategic question those decisions force into the open. If U.S. defense aid to Israel ends, what is the best way for Israel and the United States to manage the transition, and how should businesses prepare?

The relationship under review is large and old. Cumulative U.S. bilateral assistance to Israel since 1948 totals approximately US\$174 billion in nominal terms, exceeding US\$300 billion in inflation-adjusted terms when missile defense funding and post-October 7 supplementals are included. Active Foreign Military Sales cases with Israel reached approximately US\$39 billion by April 2025. The decisions made over the next 30 months will shape an alliance that is both deeper and more contested than at any prior moment in its 78-year history.¹

The paper presents nine core findings.

- **First.** Aid ends from a position of mutual strength, not American withdrawal. Israeli defense exports reached US\$14.79 billion in 2024, the fourth consecutive record year. The combined order backlog at IAI, Elbit, and Rafael exceeded US\$65 billion at the end of 2024 and continues to grow. Israel doesn't need grant aid to remain a tier-one defense power.
- **Second.** The 2016 Memorandum of Understanding already set the structural conditions for a phaseout. Off-Shore Procurement (OSP), the unique provision that allowed Israel to spend roughly 26.3 percent of FMF on Israeli industry, terminates entirely in fiscal year 2028. Without OSP, the legacy aid model converts almost dollar-for-dollar into U.S. industrial subsidy.
- **Third.** The October 7 supplementals proved the war-fighting case for the relationship while exposing its civilian vulnerabilities. Congress appropriated US\$8.7 billion in April 2024 plus the US\$3.8 billion annual baseline. The Biden hold on heavy munitions in May 2024 confirmed that aid creates leverage. Operation Rising Lion in June 2025 and Operation Epic Fury in 2026 showed that operational integration through CENTCOM matters far more than the FMF check.
- **Fourth.** South Korea offers the closest historical analogue. Seoul received roughly US\$250 million per year in U.S. military assistance through the 1970s, then graduated through a sequence of offset programs, indigenous development, and aggressive export. Hanwha, KAI, and LIG Nex1 today field a fully integrated defense complex. Israel can replicate the architecture, but compressed into a decade.
- **Fifth.** Israel's substitute revenue base already exists in fragments. The Arrow 3 sale to Germany at 4 billion euros (€), Iron Dome co-production with Raytheon in Camden, Arkansas, the European Sky Shield Initiative, the Trophy fit on Leopard 2 and Bradley, the Iron Fist contract

for U.S. Army Bradleys, and the EDGE Group partnership in the United Arab Emirates form a viable export portfolio. Israel must consolidate and accelerate.

- **Sixth.** Israel will face structural disadvantages in any phaseout: ITAR friction on technologies developed with U.S. content, third-party transfer restrictions, antidumping vulnerability under the U.S.-Israel Free Trade Agreement carve-out, and political risk during high-intensity operations. These disadvantages must be designed around, not wished away.
- **Seventh.** The post-aid relationship is not weaker. It is different. The right architecture replaces grant subsidy with three pillars: government-to-government joint development at the program level, business-to-business co-production at the industrial level, and government-to-business preferential access on dual-use innovation. The relationship moves from patron-client to peer alliance.
- **Eighth.** Israel's tax base and economy can support the transition. With GDP near US\$712 billion in 2026, a tax-to-GDP ratio of approximately 30.9 percent, and per capita GDP near US\$69,000, the loss of US\$3.3 billion in baseline FMF amounts to roughly half a percent of GDP. The 2026 defense budget at 112 NIS billion absorbs the gap with margin. Debt-to-GDP at 68.6 percent and the 4.7 percent deficit require discipline, but the fundamentals support the transition.
- **Ninth.** Export-driven scaling carries a procurement downside. The April 2026 controversy over continued Arrow shipments to Germany during Operation Roaring Lion exposed it. Critics tied two mass-casualty incidents at Dimona and Arad to David's Sling substitutions for depleted Arrow stocks. The 350 billion NIS plan depends on foreign sales for production multipliers, but those same multipliers create wartime allocation pressure. The plan must institutionalize crisis clauses, strategic stockpiling mandates, and customer diversification. Otherwise the architecture that delivers long-term independence will produce short-term tragedy.

This paper does not advocate for a specific phaseout schedule. It assesses the structural reality and the operational paths Israel, the United States, and businesses on both sides must navigate.

I. Twenty-Five Years of U.S. Aid to Israel

U.S. military aid to Israel did not begin in 2000. The relationship dates to 1959, deepened after the Six-Day War, and reached the current grant model after 1985. The relevant analytic window for this paper, however, is the past quarter century. The structural choices made during that period determine the options Israel and the United States have today.

The Cumulative Picture

U.S. bilateral assistance to Israel since 1948 totals approximately US\$174 billion in nominal terms. Inflation-adjusted, including missile defense funding and post-October 7 supplementals, the total exceeds US\$300 billion. Israel is the largest single cumulative recipient of U.S. foreign aid in the post-World War II era.

Israel enjoys structural privileges no other Foreign Military Financing (FMF) recipient receives. Cash transfers go directly to the Israeli treasury rather than through project-tied disbursements. Annual aid is disbursed early in the fiscal year, allowing Israel to earn interest on the unspent balance. Cash-flow financing permits long-term contract obligations beyond a single year's appropriation. Major Non-NATO Ally status, granted in 1987 under the Nunn Amendment, unlocks expedited review on certain dual-use exports and joint research participation. The Off-Shore Procurement carve-out, the only one in the world, allowed Israel to spend a quarter of its FMF inside its own borders.²

The Three Memoranda of Understanding

Three sequential Memoranda of Understanding define the modern era. Each is a 10-year political commitment, subject to annual congressional appropriation.

MOU Period	Total	Structure	Negotiated By
FY1999 - FY2008	US\$26.7 billion (21.3 billion in military aid)	Glide Path Agreement: phased out economic aid; converted into pure military assistance	Clinton and Barak
FY2009 - FY2018	US\$30 billion	Pure military aid; OSP at 26.3 percent (US\$815.3 million per year)	Bush 43 and Olmert
FY2019 - FY2028	US\$38 billion (33 billion FMF + 5 billion missile defense)	OSP phased out by FY2028; fuel earmark eliminated	Obama and Netanyahu

The 1999 Glide Path Agreement performed a quiet revolution. It converted the prior dual-track aid arrangement, which had paired economic support with military financing, into a pure military aid relationship. By fiscal year 2008, all bilateral Economic Support Fund flows to Israel ended.

The Glide Path was no accident. Prime Minister Netanyahu, in his July 10, 1996, address to a Joint Session of the United States Congress, explicitly proposed phasing out U.S. economic aid to Israel. He framed the

proposal as a path to mature partnership rather than a withdrawal of support. The economic phase-out was completed in 2007. Netanyahu's December 2025 announcement and his January 2026 Mar-a-Lago confirmation extend that 1996 logic to military aid, three decades later.³

The 2007 Bush MOU codified what became the modern envelope: US\$30 billion over 10 years, with annual FMF at US\$3 billion, plus a unique provision allowing Israel to spend 26.3 percent on its own industry. This OSP carve-out had no parallel in any other FMF relationship in the world.

The 2016 Obama-Netanyahu MOU raised the topline by 27 percent to US\$38 billion, but coupled the increase to a structural concession. OSP would phase out entirely by fiscal year 2028. Israel agreed to this in exchange for the bumped topline and the explicit inclusion, for the first time, of the US\$500 million annual missile defense allocation inside the MOU envelope.

Off-Shore Procurement: The Provision That Mattered

Off-Shore Procurement was the most significant economic feature of U.S. aid to Israel and the most consequential lever Israeli industry ever held. Congress first authorized OSP in 1988, after Israel canceled the Lavi fighter program in 1987 at U.S. urging. The cancellation eliminated thousands of Israeli aerospace jobs. OSP let Israel convert a portion of FMF dollars into shekels for procurement at home, partially offsetting the industrial damage. The 1991 appropriation set the floor at US\$475 million per year. By the late 2010s, OSP delivered US\$815.3 million per year to Israeli companies.⁴

Phase-Out Schedule

The 2016 MOU set a precise glide path.

- FY2019 to FY2023: OSP held near US\$815.3 million.
- FY2024: dropped to US\$725.3 million.
- FY2025: dropped sharply to US\$450.3 million.
- FY2026 and FY2027: stepped down by another US\$200 million.
- FY2028: zero. The full US\$3.3 billion FMF baseline must be spent in the United States.

The Congressional Research Service noted in its May 2025 update that the FY2024 emergency supplemental temporarily allowed up to US\$769.3 million of FMF to be used for OSP, a one-time bump that does not change the underlying schedule.⁵

Strategic Significance

OSP did three things. It funded Israeli defense industrial capacity, especially in air defense, optronics, and electronic warfare. It maintained a domestic surge capability for crisis. And it allowed Israel to retain technology sovereignty on systems it considered critical to national survival.

The 2016 phase-out reflected an explicit American policy preference. The Obama administration argued that U.S. aid to Israel should fund advanced U.S.-only capabilities, particularly the F-35I, with the remaining envelope channeled through U.S. primes. The White House fact sheet at signing characterized OSP as an anomaly inherited from earlier MOUs.⁶

What FMF Funded Over Twenty-Five Years

Aid bought capability. The single most consequential item across the period is the F-35I Adir. Israel committed to 50 F-35s in 2010 and added orders in 2015 and 2024. Israel is the only operator allowed to integrate indigenous systems and weapons into the platform, including domestic electronic warfare suites and Spice and Rampage stand-off munitions.

FMF also financed:

- Twenty-five F-15I Ra'am strike fighters delivered between 1998 and 1999, with a follow-on order for the F-15IA announced in 2024.
- F-16I Sufa fighters: 102 platforms delivered between 2003 and 2009.
- AH-64D Apache Longbow attack helicopters and CH-53K King Stallion heavy-lift platforms.
- KC-46A Pegasus aerial refueling tankers, with first deliveries scheduled for 2026 and 2027.
- Sa'ar 5 corvettes (built in the United States) and missile defense components.
- Submarine financing through a parallel grant arrangement, separate from FMF, on the Dolphin and Dakar classes.

On the Israeli industrial side, OSP and joint U.S.-Israel funding combined to produce Iron Dome (Rafael), David's Sling (Rafael with Raytheon), Arrow 2 and Arrow 3 (IAI with Boeing), the Trophy active protection system (Rafael), and the Spike anti-tank missile (Rafael). Each of these now generates substantial export revenue.

The October 7 Supplementals and the 2024-2026 Reality

The October 7, 2023, attack and the multi-front war that followed reset the financial picture. Congress passed the Israel Security Supplemental on April 24, 2024, providing US\$14.1 billion for Israel, of which US\$8.7 billion was direct security assistance. Of that US\$8.7 billion, US\$5.2 billion was specifically earmarked for missile defense replenishment of Iron Dome, David's Sling, and the Iron Beam laser system.

The Council on Foreign Relations calculated that since October 7, 2023, the United States has appropriated at least US\$16.3 billion in direct military aid to Israel through three legislative vehicles: the April 2024 supplemental, and the FY2024 and FY2025 baseline appropriations. Of that total, US\$6.7 billion was for missile defense.⁷

The Costs of War Project at Brown University places the total U.S. spending on Israel-related military operations and regional defense at US\$22.76 billion from October 7, 2023, through the end of 2024. That figure includes the US\$17.9 billion in approved security assistance and US\$4.86 billion in regional U.S. military operations, primarily against Houthi targets in the Red Sea.⁸

In October 2024, the United States deployed a Terminal High Altitude Area Defense (THAAD) battery to Israel along with approximately 100 U.S. service members to operate it. The deployment marked the first stationing of a THAAD system in Israel and reflected the operational reality of direct Iranian ballistic missile attacks. The THAAD deployment falls outside the FMF envelope but inside the operational architecture that any successor framework must preserve.⁹

By April 2025, active Foreign Military Sales cases with Israel reached approximately US\$39 billion. This figure dwarfs the FMF envelope and reflects the underlying reality that Israel is now a major commercial customer of U.S. defense industry, financed primarily through the Israeli treasury rather than U.S. grants. Eliminating FMF reduces but does not eliminate Israeli purchases from U.S. primes.¹⁰

Operation Rising Lion and Operation Epic Fury

Operation Rising Lion, Israel's 12-day campaign against the Iranian nuclear program from June 13 to June 24, 2025, demonstrated capabilities that the FMF baseline alone could not have produced. Israeli aircraft flew uncontested over Tehran, refueled freely above Syria, and degraded Iran's missile arsenal by more than half through drone and air strikes. JINSA's after-action report concludes that the operation reset the regional strategic landscape.¹¹

Operation Epic Fury, the U.S. companion campaign launched in early 2026 against Iranian regime targets, paired with Israel's Operation Roaring Lion. The Pentagon subsequently sought US\$200 billion in additional funds for the campaign, a number that signals the order of magnitude at which great-power conflict over Iran now operates.¹²

The 2020 transfer of Israel from EUCCOM to CENTCOM, which appeared technical at the time, became the operational backbone of the Epic Fury and Roaring Lion architecture. CENTCOM-coordinated detection and intercept against Iranian and Houthi missiles tested first in April and October 2024 became the fire-and-defend infrastructure for joint operations against Iran in 2026.¹³

The Ratio Has Already Shifted

By 2025, the FMF picture had quietly reversed. The American Enterprise Institute estimated in February 2024 that US\$73 billion—or 77 percent—of the supplemental funding for Taiwan, Ukraine, and Israel was domestically invested in the U.S. defense industrial base. Israel was already paying U.S. companies for most of what FMF bought.

From the Israeli perspective, this means the residual marginal benefit of staying in the FMF system is shrinking. INSS analyst Avishay Ben Sasson-Gordis observed in February 2026 that aid now contributes less to strengthening Israeli industry than at any point since 1985.¹⁴

From the American perspective, the strategic rationale underlying the aid has shifted. U.S. defense industries enjoy a substantial backlog without aid to Israel, diminishing the industrial incentive to maintain aid at current levels. Avishay Ben Sasson-Gordis, INSS, February 2026.

Operational Implications of the 2025-2026 Campaigns

Operation Rising Lion in June 2025 and Operation Epic Fury in early 2026 carry direct lessons for the post-aid architecture. Three lessons stand out.

First, the most consequential capabilities Israel deployed against Iran were not paid for by FMF. The intelligence platform that enabled the synchronized opening strike, the long-range UAV fleet that hunted

Iranian missile launchers, the offensive cyber capability that disabled Iranian command and control, and the precision-guided weapons launched against deeply buried nuclear facilities all sit on the Israeli side of the industrial ledger. FMF funded the F-35I that delivered some of those weapons. FMF did not fund the weapons themselves or the kill chain that targeted them. The aid mattered less to Operation Rising Lion than the operational integration with CENTCOM mattered. Operational integration survives the aid phaseout. The aid does not.

Second, the campaigns exposed the production surge gap that the 350 billion NIS plan must close. Iron Dome interceptor consumption ran at multiples of pre-October 7 production rates. Arrow consumption against Iranian ballistic threats consumed approximately half of the entire pre-war Israeli inventory in 12 days. The April 2024 supplemental funded immediate replenishment from U.S. content. The follow-on Israeli production capacity gap drove the November 2025 multi-billion-dollar Rafael contract and the December 2025 Netanyahu announcement. The plan was reverse-engineered from operational data, not designed in the abstract.

Third, the campaigns revealed reserve manpower as the binding constraint on prolonged industrial output. The IDF mobilized approximately 300,000 reservists at peak in late 2023. The Israeli industrial base lost a corresponding share of its trained workforce to active duty. Defense plants ran shifts on diminished crews precisely when surge production was most needed. The Nagel Committee's reserve reform recommendations, including the 36-month service extension and the short-term reserve framework, address this gap. Industrial planning that ignores the manpower-mobilization binding constraint will misjudge how much capacity is realistic during the next major campaign.

These lessons inform the rest of the paper. They do not, by themselves, change the aid trajectory. They sharpen the tasks that the post-aid architecture must accomplish, and they raise the cost of getting any element wrong.¹⁵

II. The Israeli Defense Industry as It Stands in 2026

Any discussion of phasing out U.S. aid hinges on the actual capacity of Israeli industry. The data show a sector that has matured beyond the OSP-dependence framing and now operates as an export-led tier-one defense complex.

Topline Figures

Israeli defense exports reached US\$14.795 billion in 2024, a 13 percent increase over 2023 and the fourth consecutive record year. More than half of all deals were valued at over US\$100 million each. Defense exports more than doubled over the prior five years.¹⁶

The geographic distribution tells a strategic story:

Region	Share of 2024 Exports
Europe	54 percent
Asia and Pacific	23 percent
Abraham Accords countries	12 percent
North America	9 percent
Latin America	1 percent
Africa	1 percent

Europe became the dominant export market, jumping from 35 percent of 2023 exports to 54 percent in 2024. The shift reflects three factors: NATO rearmament after the Ukraine invasion, the European Sky Shield Initiative absorbing Arrow 3 and David’s Sling, and the relative weakness of European indigenous air defense production. North America’s 9 percent share is artificially low, since most U.S. procurement of Israeli technology occurs through U.S.-incorporated subsidiaries, which categorize as domestic sales.

The Three Primes

Israel Aerospace Industries, Elbit Systems, and Rafael Advanced Defense Systems form the industrial spine. Their combined order backlog at the end of 2024 stood at US\$65.3 billion. By the end of 2025, Elbit alone reported a backlog of US\$28.1 billion, with 69 percent of orders coming from outside Israel. The aggregate prime backlog reached approximately US\$80 billion by the first quarter of 2026, reflecting cumulative European and Asian procurement growth.¹⁷

Israel Aerospace Industries (IAI)

State-owned. Prime contractor on the Arrow family. Manufactures the Heron and Eitan UAVs, EL/M radars, and small satellites. Reported approximately US\$5.5 billion in 2024 revenue with a US\$25 billion backlog.

Elbit Systems

Publicly traded on NYSE and TASE. Reported US\$7.94 billion in 2025 revenue. Backlog of US\$28.1 billion at year-end 2025. Acquired IMI Systems in 2018, consolidating ammunition and ordnance under one roof. The Iron Fist active protection system, selected by the U.S. Army for the Bradley Fighting Vehicle through GD-OTS, generated a US\$228 million follow-on contract in January 2026 on top of the original 2024 award.¹⁸

Rafael Advanced Defense Systems

State-owned. Prime contractor on Iron Dome, David's Sling (with Raytheon), Spike, Trophy APS, and Spice. Opened a new Iron Dome interceptor production facility in Camden, Arkansas, in November 2025 through the R2S joint venture with Raytheon, capitalized at US\$1.25 billion in initial Tamir interceptor orders.¹⁹

The Dual-Use Ecosystem

Beyond the primes, Israel hosts a deep dual-use technology ecosystem in cyber, optronics, autonomy, communications, and AI. Companies in this layer often start as commercial firms, then attract defense investment. The pipeline is well-suited to deep-tech venture capital structures and aligns with the American Dynamism investment thesis articulated by Andreessen Horowitz, General Catalyst, and Founders Fund.

Notable companies include UVision (loitering munitions), XTEND (drone autonomy), Skydweller (long-endurance aircraft), Roboteam (ground robotics), Bird Aerosystems, and Plasan (vehicle armor). Several of these emerged from BIRD Foundation grants or unit alumni networks.

Strengths

Five strengths define the export proposition.

- Battlefield validation. Iron Dome, Trophy, and Spike all carry recent combat records. Buyers value proven performance over paper specifications.
- Speed. Israeli companies historically deliver in 18 to 36 months against five to seven years for U.S. equivalents.
- Modularity. Israeli systems integrate onto third-party platforms (Trophy on Abrams and Leopard 2; Iron Fist on Bradley; David's Sling components into European Sky Shield).
- Cost. Per-unit costs run 30 to 50 percent below U.S. equivalents on comparable systems.
- Willingness to license and co-produce. Most U.S. primes resist deep technology transfer. Israeli primes embrace it as a market access strategy.

Downsides of Doing Business with Israeli Defense Companies

The brief must also include the structural friction. These constraints will not disappear under a phaseout.

ITAR Reach-Through

Many Israeli systems incorporate U.S.-origin components. Once incorporated, those components carry ITAR restrictions on third-party transfer. A foreign government buying an Israeli system with U.S. content

can face U.S. State Department review on any future re-transfer. The 2026 expansion of ITAR brokering enforcement compounds the risk: even non-U.S.-based intermediaries can fall under U.S. jurisdiction if they touch dollar-clearing or U.S. financial systems.²⁰

Export Controls Under DECA

Israel's own Defense Export Control Agency (DECA) operates a separate licensing system under the Defense Export Control Law. DECA can and does block sales for foreign policy reasons, particularly to states with which Israel lacks diplomatic relations or where the end-user raises proliferation concerns. The new draft Dual-Use Export Control Bill, published for comment on March 26, 2026, expands the catch-all mechanism and imposes personal criminal liability on corporate officers.²¹

Antidumping Risk Under U.S. Trade Law

The U.S.-Israel Free Trade Agreement does not fully insulate Israeli exporters. The Tariff Act allows the U.S. International Trade Commission to cumulate Israeli imports with imports from other named countries when assessing material injury. In 2024, Finkelstein Metals, an Afula-based brass alloy supplier to Iron Dome, faced antidumping duties because the ITC cumulated Israeli imports with imports from Brazil, India, Mexico, South Africa, and South Korea. The case threatened Iron Dome supply chain resilience.²²

Foreign Ownership Restrictions

Israel's Defense Ministry blocks foreign acquisition of companies holding sensitive military intellectual property. In January 2026, the ministry stopped a proposed US\$200 million acquisition of mPreSt Systems, the developer of Iron Dome command-and-control software, by Ondas Inc., a U.S. holding company. The block reflected national security policy. It also signaled that even friendly foreign capital faces meaningful gates.²³

CFIUS provides a parallel constraint flowing in the opposite direction. The Committee on Foreign Investment in the United States, particularly under the FIRRMA expansion of 2018, can block or unwind Israeli acquisitions of U.S. defense and dual-use companies. CFIUS reviews increasingly cover sensitive technologies regardless of acquirer nationality, and Israeli companies seeking U.S. industrial footprint must structure transactions to clear CFIUS as well as ITAR. The compliance cost is meaningful. The policy coherence is increasing as both governments tighten investment screening on adversary-aligned capital, but Israeli companies still face the friction.²⁴

Political Risk During High-Intensity Operations

Buyer governments face domestic political pressure to suspend deliveries during Israeli combat operations. Spain, Belgium, Norway, and others delayed or canceled Israeli purchases during the 2023 to 2025 Gaza campaign. The risk premium will compress as the war recedes, but it remains a structural feature of the market.

U.S. Prime Preference in U.S. Procurement

Israeli systems entering the U.S. defense market generally must partner with a U.S. prime. Iron Fist on Bradley flows through GD-OTS. Iron Dome on USMC flows through Raytheon. Trophy on Abrams flows

through Leonardo DRS. The Israeli company captures roughly 40 to 60 percent of program economics. The U.S. prime captures the rest as a tax on access to the customer.

The summary picture: Israeli industry can support a phaseout. It cannot do so without absorbing the structural friction listed above. The frictions are not merely costs. They are also market opportunities for ventures that can engineer around them, particularly on the U.S. and European subsidiarization paths developed in Sections III and VII.

III. Government-to-Government, Business-to-Government, and Business-to-Business

The U.S.-Israel defense relationship operates on three planes simultaneously. Each plane has its own logic, its own success cases, and its own failure modes. A successful phaseout requires preserving the parts that work and rebuilding the parts that depend on aid as the financial pipe.

Government-to-Government: Joint Development

The most durable U.S.-Israel work product is co-development. Three programs anchor it.

The Arrow program runs from the late 1980s. The United States contributes roughly 50 to 80 percent of program funding through the Missile Defense Agency budget, separate from FMF. IAI is the prime. Boeing builds approximately 35 percent of each interceptor in Huntsville, Alabama. The Arrow 3, with exo-atmospheric capability, became operational in 2017. The Arrow 4, in development, will replace Arrow 2 from approximately 2030. The Pentagon's then-MDA director called Arrow 3 more advanced than what the United States had attempted on its own programs.

David's Sling pairs Rafael with Raytheon. The Stunner kinetic kill interceptor has a U.S. variant called Sky Ceptor that Raytheon offers into U.S. and NATO architectures. The program operationalized in 2017.

Iron Dome began as a Rafael initiative funded with Israeli Ministry of Defense money but received approximately US\$2.5 billion in dedicated U.S. funding from 2011 onward, separate from the main FMF envelope. The U.S. Army acquired two Iron Dome batteries in 2019 and 2020 for theater air defense. The U.S. Marine Corps integrated Iron Dome into the Medium-Range Intercept Capability program. Raytheon and Rafael formed the R2S joint venture in 2020. The Camden, Arkansas, plant opened in November 2025.

Government-to-Government: Space and Cyber

Strategic independence in the post-aid era requires independence in command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR). Two domains define that independence: space and cyber.

Israel operates an indigenous space program. The Ofeq reconnaissance satellite series, built by Israel Aerospace Industries and launched aboard the Shavit launch vehicle, gives Israel sovereign access to imaging intelligence over adversary territory. Ofeq-13 entered operational service in 2023. The series is now in its eighth generation, with Ofeq-16 announced and additional successor satellites under development. The Shavit, derived from the Jericho ballistic missile family, is the only operational launch vehicle developed and operated by a Middle Eastern country. The space-launch capability itself is a strategic asset, reducing dependence on foreign launch providers for sensitive payloads.²⁵

Joint U.S.-Israel space architecture extends the bilateral relationship into low-earth orbit (LEO) targeting, missile-warning and missile-tracking satellites, and proliferated constellation cooperation. The U.S. Space Development Agency proliferated warfighter space architecture and the U.S. Space Force partnerships could naturally extend to Israeli participation, particularly on missile-defense data fusion. This cooperation

does not require FMF. It runs through Department of Defense space program funding, which is structurally insulated from the FMF debate.

In cyber, Unit 8200 of Israeli Military Intelligence and U.S. Cyber Command have a long history of operational coordination, beginning in the late 2000s with the Stuxnet program against Iran's Natanz facility. The cooperation has expanded to include shared offensive tooling, joint defensive operations against Russian, Iranian, and Chinese state actors, and bilateral threat intelligence flow.²⁶

Both space and cyber will become the premium non-monetary currencies of the post-aid alliance. They produce capability that neither side can replicate alone, sit outside the FMF political target, and serve direct U.S. national interests. The Joint Advanced Technology Envelope recommended in Section X should explicitly fund both domains.

Business-to-Government: U.S. Procurement of Israeli Technology

This is the rapidly growing track. Five categories matter.

Active Protection Systems

The U.S. Army selected Trophy for the M1A2 Abrams in 2017. Total program value exceeded US\$200 million. In 2024, the Army selected Iron Fist for the Bradley M2A4. The follow-on contract in January 2026 added US\$228 million.

Counter-UAS

The Drone Dome (Rafael) and Smash 2000 (Smart Shooter) have been procured by U.S. units in limited quantities. The category is growing fast as small drone threats proliferate.

Optronics and Targeting

Elbit acquired Harris Night Vision for US\$350 million in 2019 and integrated U.S. production. Elbit's Iron Vision and helmet-mounted display systems sell directly into U.S. programs.

Air Defense

Iron Dome at Guam and selected Pacific basing locations. The Spyder system has been evaluated for short-range air defense. The U.S. Army's Indirect Fire Protection Capability Increment 2 program borrows lessons from Iron Dome but does not procure the Israeli system directly.

Loitering Munitions

UVision Hero family and Israel Aerospace Industries Harop have been procured in modest U.S. quantities for evaluation and special operations use. The category will grow as the U.S. Army rebuilds its Replicator initiative around attritable systems.

Business-to-Government: Israeli Procurement of U.S. Systems

Aid funds this track. Major recent items:

- F-35I Adir: 50 original platforms (39 to 48 delivered as of January 2026) plus a third squadron of 25 aircraft signed in June 2024 at US\$3 billion, bringing the total to 75. New deliveries begin 2028.
- F-15IA: 25 aircraft on order with an option for 25 more, signed November 2024 at US\$5.2 billion. Deliveries begin in 2031, four to six aircraft per year.
- KC-46A Pegasus: 4 aircraft on order.
- CH-53K King Stallion: 12 helicopters on order.
- Apache AH-64 fleet upgrades.
- Various precision-guided munitions including JDAMs, BLU-109, and GBU-39 Small Diameter Bombs.

Without FMF, Israel pays for these directly. The 2026 budget at 112 billion NIS (US\$34 billion) absorbs that load with room to spare, but it requires reprioritization.

The End of the FMF Distortion: Free Dollars, Expensive Shekels

FMF historically functioned as monopoly money for the IDF. U.S. systems were effectively free to the internal Israeli shekel budget. Israeli operational planners faced an asymmetric incentive structure: the dollar cost of an American platform did not appear on the IDF's domestic budget line, while the shekel cost of an Israeli alternative did. The result was systematic over-procurement of expensive U.S. platforms even where cheaper Israeli systems would have been operationally adequate. The Israeli Ministry of Defense procurement mission in New York placed approximately 1,700 orders worth roughly US\$12.6 billion in 2024 alone, illustrating both the scale and the structural bias of the FMF-financed procurement model.²⁷

The transition to direct shekel-based procurement reverses the asymmetry. Every dollar Israel spends on a U.S. platform now competes directly with shekels available for Israeli alternatives, for reservist pay, for domestic capacity expansion, and for Iron Beam laser deployment. The economic calculus of target engagement shifts in three concrete ways.

- Aggressive pivot toward attritable, autonomous systems. Kamikaze drones at US\$5,000 to US\$50,000 per unit replace US\$250,000 JDAMs for many target classes. Loitering munitions replace expensive precision strike for soft and lightly armored targets. The economic argument for attritable systems was always operationally compelling. The shekel-based budget makes it fiscally compelling as well.
- Acceleration of directed energy. Iron Beam interceptions cost approximately US\$2 to US\$4 per shot in marginal energy cost. A Tamir interceptor costs approximately US\$50,000. Once Iron Beam reaches operational maturity, the cost asymmetry compels mass deployment. The post-FMF budget environment makes the deployment decision economically rational rather than merely technologically feasible.
- Reservation of high-end U.S. platforms for existential threats. F-35I sorties, KC-46 refueling missions, and AH-64 attack helicopter operations become reserved for missions where capability genuinely matters and cheaper alternatives genuinely cannot substitute. Day-to-day operations shift toward Israeli-built equivalents and attritable systems.

This doctrinal pivot is itself a strategic asset for the United States. A more cost-conscious IDF that relies on attritable systems against irregular threats reduces consumption of premium U.S. munitions, creating slack for U.S. operational reserves and partner-nation procurement. The shift benefits both sides. The constraint is ensuring the high-end U.S. platform pipeline remains sufficient for the existential-threat scenarios where Israel still requires it.

Business-to-Business: Co-Production and Joint Ventures

The R2S joint venture in Camden, Arkansas, is the model. Other examples:

- IAI with Boeing on Arrow 3.
- Rafael with Lockheed Martin on Spike NLOS for AH-64 and unmanned platforms.
- Elbit with L3Harris on tactical communications.
- Rafael with Diehl Defence on Sky Sonic for the European market.

BIRD and BSF: The R&D Plumbing

The Israel-U.S. Binational Industrial Research and Development (BIRD) Foundation, established in 1977, has funded over 1,100 joint U.S.-Israeli projects across 47 years. Total cumulative investment exceeds US\$396 million, generating direct and indirect sales above US\$10 billion.²⁸

BIRD operates four programs: BIRD Classic (commercial), BIRD HLS (homeland security, with DHS S&T), BIRD Cyber (with the Israel National Cyber Directorate), and BIRD Energy (with the U.S. Department of Energy). Each cycle approves five to 10 projects with grants of up to US\$1.5 million per project.²⁹

The Binational Science Foundation (BSF), established in 1972, funds basic research between U.S. and Israeli academic institutions. Its budget runs at approximately US\$25 million per year.

BIRD and BSF together represent a small fraction of U.S. aid to Israel but have disproportionately strong leverage. Both can and should expand under any phaseout architecture.

Implication for the Phaseout

Each of the three planes responds differently to a phaseout.

Government-to-government joint development can survive intact. The Missile Defense Agency funding for Arrow and David's Sling sits outside FMF and serves direct U.S. interests.

Business-to-government Israeli procurement of U.S. systems will continue at lower volumes once Israel pays directly. Israel will become more selective. U.S. primes will lose some baseline revenue but face less political risk.

Business-to-government U.S. procurement of Israeli systems will likely accelerate. Israeli companies, no longer beneficiaries of OSP, will compete more aggressively for U.S. defense contracts.

Business-to-business co-production becomes the central organizing principle. Camden, Arkansas, is the future. Joint ventures with U.S. content satisfy congressional politics, reduce ITAR friction, and permit the dollar of military spending to circulate inside the alliance rather than across it.

IV. Comparative U.S. Military Aid Models

Israel is not the only country that has navigated the relationship between U.S. aid and indigenous defense industry. Six comparative cases bear on the question.

Before working through the cases, one finding from the empirical political science literature deserves note. Studies that test the so-called arms-for-influence theory consistently find that U.S. military aid does not reliably translate into recipient compliance with U.S. foreign policy preferences. In several models, increased aid correlates with reduced cooperative behavior, as recipient states leverage their strategic importance against the donor. The finding does not invalidate the strategic rationale for aid in any single case. It does suggest that the leverage Washington theoretically gains through aid is weaker than the political optics imply. The U.S.-Israel case, with the May 2024 munitions hold and its rapid reversal, fits the pattern.³⁰

Egypt: The Static Recipient

Egypt has received approximately US\$1.3 billion per year in FMF since the 1979 Camp David Accords. Total cumulative aid exceeds US\$50 billion. Egypt has the second-largest FMF allocation after Israel.

The Egyptian model is structurally inferior to Israel's. Cairo lacks an export-oriented defense industry. FMF flows almost entirely to U.S. primes. The aid creates leverage that the United States periodically uses, including the 2013-2015 suspension over human rights concerns. Egypt's failure to graduate over 47 years is a cautionary tale: aid without an industrial strategy entrenches dependency rather than building capacity.

Jordan: The Strategic Buffer

Jordan receives approximately US\$425 million in baseline FMF, supplemented by additional packages. Total annual U.S. aid runs near US\$2 billion. The 2023 to 2029 framework added US\$1.45 billion on top of baseline.

Jordan operates as a strategic buffer state. The aid funds counterterrorism cooperation, border and maritime security, and air force modernization. The kingdom has no significant indigenous defense industry beyond KADDB (King Abdullah II Design and Development Bureau), which produces armored vehicles for export. Jordan's path is not analogous to Israel's. It is an aid recipient by strategic geography, not by ambition.

South Korea: The Graduation Case

South Korea is the most relevant comparison for Israel. The Republic of Korea received roughly US\$250 million per year in U.S. military assistance through the late 1960s and early 1970s. Seoul obtained formal U.S. approval in 1968 to develop a defense industry. The Defense Procurement Law of 1973 established the legal foundation. Initial financing came through an unrestricted US\$60 million bank loan and a Defense Surtax begun in 1975.³¹

The 1980s and 1990s saw aggressive offset programs on every major U.S. acquisition. The F-15K offset program, signed in 2002, required offsets equal to more than 70 percent of the main contract amount, which was US\$3.3 billion. Of that, 35 percent went to technology transfer and 40 percent to parts manufacturing.

South Korea acquired the technology base to develop the indigenous KF-21 fighter, which now competes for export.³²

By 2020, South Korea had transitioned from net aid recipient to net defense exporter. K-Defense, anchored by Hanwha (artillery, ground vehicles), KAI (aerospace), LIG Nex1 (missiles), and Hyundai Rotem (tanks), produced approximately US\$14 billion in defense exports in 2024. Major contracts include K9 self-propelled howitzers to Poland, Norway, Finland, and Egypt; K2 Black Panther tanks to Poland; FA-50 light fighters to multiple Asian markets; and the KF-21 in development.

The lessons for Israel are precise:

- Time horizon: Korea required approximately 50 years to complete the transition. Israel proposes 10.
- Industrial spine: Korea built around four primes operating in semi-coordinated fashion. Israel already has three plus a deep startup layer.
- Government direction: The Korean state actively coordinated the industry through the Agency for Defense Development (ADD). Israel must decide how much to coordinate through the Ministry of Defense Director General and the Directorate of Defense Research and Development.
- Offset extraction: Korea systematically extracted technology, manufacturing, and depot maintenance offsets on every U.S. acquisition. Israel never did this systematically because OSP made it unnecessary.
- Export financing: Korea built export credit agencies (Export-Import Bank of Korea) to finance buyer nations. Israel must build the equivalent.

Taiwan: The Strategic Pivot Toward Asymmetric Deterrence

Taiwan transitioned from FMS-only purchaser to FMF recipient in 2023, when the FY2023 NDAA authorized up to US\$2 billion in FMF for Taiwan. The 2022 Consolidated Appropriations Act funded the first US\$80 million in FMF as a grant. The remainder runs as direct loans.³³

The Trump administration's December 17, 2025, notification of US\$11 billion in new FMS to Taiwan brought the total backlog to approximately US\$32 billion. The composition shifted toward asymmetric capabilities: HIMARS, mobile air defense, expendable unmanned systems, and Coastal Defense Cruise Missiles.³⁴

Taiwan's model differs from Israel's in two ways. First, Taipei lacks recognized sovereignty, which constrains FMS and complicates multilateral defense partnerships. Second, Taiwan's indigenous defense industry is concentrated in NCSIST (National Chung-Shan Institute of Science and Technology), a state lab that produces but does not export at meaningful scale. Taiwan's lessons for Israel are tactical, not structural.

Ukraine: The Crisis-Driven Hybrid

U.S. aid to Ukraine since February 2022 totals approximately US\$175 billion across multiple instruments: Presidential Drawdown Authority (PDA), Ukraine Security Assistance Initiative (USAI), Foreign Military

Financing loans, and direct grants. Of approximately US\$9.2 billion in FMF loans for Ukraine and 17 other affected countries, the Biden administration forgave US\$4.6 billion in 2024.³⁵

The Ukraine model is not a precedent. It is an emergency improvisation that Congress would not replicate at scale outside of a great-power war. The relevant lesson for Israel is the use of FMF loans to allies operating in industrial-scale conflict, particularly to enable backfill arrangements with NATO partners.

Poland: The Buyer-Builder

Poland received approximately US\$2 billion in FMF loans in 2024 to support Patriot, HIMARS, Abrams, and F-35 acquisitions. Poland represents a different model entirely: a NATO member purchasing U.S. equipment with U.S.-financed loans while simultaneously building joint production with Korean and other partners (PGZ-Hanwha for K9 and K2 production).

The Polish lesson for Israel is the use of FMF loans rather than grants. Loans preserve the financing instrument while removing the unconditional grant character. A successor framework that converts a portion of the FMF baseline to loans could preserve some U.S. influence while reducing the political target.

Comparative Synthesis

Country	Annual FMF (2025)	Industry Status	Lesson for Israel
Israel	US\$3.3B grant	Tier-one exporter, US\$14.8B	Self
Egypt	US\$1.3B grant	Minimal industry	Aid without strategy entrenches dependency
Jordan	US\$425M grant + supplementals	Niche industry	Geographic buffer model
South Korea	0 (graduated)	Tier-one exporter, US\$14B+	Closest model: offsets, primes, export credits
Taiwan	Loans + small grants	State lab	Asymmetric procurement composition
Ukraine	PDA + USAI + loans	War-driven scaling	Backfill mechanics for partners
Poland	US\$2B loan	Mid-tier, growing	Loan structure with Korean co-production

The right model for Israel takes elements from Korea (industrial offsets, prime consolidation, export credits), Poland (loan structure for any residual FMF), and Taiwan (asymmetric procurement composition). It rejects the Egyptian and Jordanian models entirely.

V. The 350 Billion NIS Pivot

Israel's response to the post-October 7 environment crystallized in two announcements separated by 20 days. Together they represent the most consequential Israeli defense industrial decision since the cancellation of the Lavi in 1987.

The Nagel Committee

Prime Minister Netanyahu appointed the Nagel Commission in August 2024, chaired by Professor Jacob Nagel, a reserve general and former chairperson of the National Security Council. The mandate was unprecedented in scope: recommendations on the multi-year defense budget for the coming decade, the required force buildup, and the approval and oversight process. The committee submitted its 130-page report on January 6, 2025. All but 20 pages have been made public.³⁶

The committee recommended an unprecedented increase. The Globes summary reports a 133 billion NIS supplement to the defense budget over the next decade, layered on top of 40 billion NIS already agreed before the war and 82.4 billion NIS approved during the war. The total represents an increase of approximately 275 billion NIS over a decade beyond the working baseline from 2025 onward. The annual defense budget rises from a working baseline of 67.3 billion NIS to 96.6 billion NIS, an increase of nearly 50 percent.³⁷

Annual increments: 9 billion NIS for 2025; 15 billion NIS per year from 2026 to 2030; reducing to 13 billion NIS in 2031 and 12 billion NIS from 2032 to 2034. The Ministry of Finance opposed the upper bound. The defense establishment had requested up to 220 billion NIS in supplements at the height of negotiations.³⁸

The Five Capability Priorities

The Nagel report identifies five priority domains.

- Iran-focused force buildup. Strategic capabilities for an inevitable confrontation, including offensive long-range strike, intelligence, and cyber.
- Missile defense. Continued investment in Iron Dome, David's Sling, Arrow 3 and 4, and the Iron Beam laser. The November 2025 multi-billion-dollar Rafael contract, funded by the U.S. April 2024 supplemental, provides the immediate replenishment baseline.
- Domestic munitions production. Reducing reliance on U.S. precision-guided munitions resupply. The April 2026 Elbit contract for US\$200 million in aerial munitions is part of this thrust, following an earlier US\$183 million order in January 2026.
- Ground forces. Merkava Mk5 Barak, Eitan APC, Namer, and the broader armored force restructuring.
- Reserve system reform. Short-term frameworks to reduce the burden on reservists, with extension of regular service to 36 months.

The Nagel report also recommends a fundamental rebalancing of IDF force posture. The committee endorses shifting from approximately 30 percent attack and 70 percent defense, the historical orientation,

to approximately 70 percent attack and 30 percent defense. The recommendation reflects the Iranian-threat-driven offensive doctrine articulated in the report and operationalized during Operation Rising Lion. Industrial implication: the offensive shift increases munitions consumption rates relative to interceptor consumption rates, which directly informs which production lines the 350 billion NIS envelope must prioritize.³⁹

The 350 Billion NIS Announcement

On December 25, 2025, Prime Minister Netanyahu announced at a graduation ceremony at Hatzetim Airbase that Israel will invest 350 billion NIS, equivalent to approximately US\$120 billion, over the next decade to build an independent munitions and broader arms industry. He framed the decision as strategic insulation from future embargoes and as a path to greater wartime resupply speed.⁴⁰

Two characteristics of the announcement matter. First, the 350 billion NIS figure exceeds the Nagel Commission's recommended supplement. The PMO communique frames the 350 billion NIS as a decade-long addition layered on top of the regular budget rather than absorbed into it. Second, the framing is explicit: Israel will continue buying essential supplies from abroad but wants weapons produced as much as possible in Israel to reduce dependence on any outside party, including close allies such as the United States.⁴¹

I approved, along with the defense minister and finance minister, a sum of NIS 350 billion over the next decade to build an independent Israeli munitions industry. Prime Minister Benjamin Netanyahu, December 25, 2025.

The 2026 Budget

The 2026 defense budget, approved by the cabinet on December 5, 2025, stands at 112 billion NIS, approximately US\$34 billion. This compares to a pre-war baseline near 60 billion NIS. The 2026 figure is significantly less than the defense establishment had initially sought (140 billion NIS) but more than the Finance Minister had demanded (90 billion NIS).⁴²

The 2026 budget assumes an average of 40,000 reservists per month, sharply lower than the 60,000 in 2025 and the 300,000 peak of late 2023. A 725 million NIS package over three years is dedicated to Judea and Samaria security and the Jordanian border.

The Mar-a-Lago Interview

On January 9, 2026, in a meeting with President Trump at Mar-a-Lago, Netanyahu communicated that Israel would not seek full renewal of the FMF MOU upon its 2028 expiration. In a subsequent *Economist* interview, he confirmed that he wanted to taper military aid to zero over the next 10 years. Senator Lindsey Graham (R-SC) responded by proposing legislation to accelerate the timeline.⁴³

On April 26, 2026, the financial daily *Calcalist* reported that Israel and the United States will open formal talks next month on a successor framework that would gradually end U.S. military aid to Israel by 2038. A new 10-year MOU would replace the current one, with U.S. financial assistance gradually decreasing while joint weapons development cooperation expands.⁴⁴

Funding Mechanics

The Ministry of Finance has not detailed the funding plan for the 350 billion NIS commitment. The Nagel Committee recommended avoiding new taxes, with funding sourced from reserves, economic growth, and unspecified other sources. The Finance Ministry maintains internal skepticism that the recommendations will be implemented at the upper bound.⁴⁵

The structural options:

- Debt issuance, with debt-to-GDP rising from a pre-war 60 percent toward 75 percent.
- Defense-specific bonds, similar to the Korean Defense Surtax.
- Sovereign wealth fund mobilization, drawing from the Citizens Fund populated by gas royalties.
- Targeted tax increases, particularly on banks (already proposed by Smotrich in November 2025).
- Export-driven offset, with each new defense export contract committing a share of revenues to domestic capacity.

The most likely architecture combines debt issuance, defense bonds, and export offset. Tax increases face political resistance. Sovereign wealth fund mobilization requires Citizens Fund maturation that has not yet occurred.

Can Israel Afford This Without U.S. Aid?

The fiscal question is the question on which everything else depends. The aggregate answer is yes, with discipline. The detailed answer follows.

The Tax Base

Israel's tax-to-GDP ratio reached approximately 30.9 percent in 2024, up from 29.8 percent in 2023, according to OECD Revenue Statistics. The ratio sits below the OECD average of 34 percent but reflects a high-growth, high-tech-heavy economy. Tax revenues benefit from strong corporate taxes, an 18 percent VAT, capital gains from the Israeli technology sector, and one-time windfalls from major acquisitions such as the Google-Wiz transaction. January 2026 monthly revenue alone reached 58.9 billion NIS.⁴⁶

GDP for 2026 is projected at approximately US\$712 billion by the IMF. Per capita GDP near US\$69,000 places Israel among the highest-income economies in the world. The US\$3.3 billion baseline FMF amounts to roughly half a percent of GDP and roughly 10 percent of even the pre-war defense budget. The aid is no longer the load-bearing component of Israeli defense finance.

The Debt and Deficit Picture

Debt-to-GDP rose from approximately 60 percent before October 7 to 68.6 percent by year-end 2025. The Bank of Israel projects approximately 70 percent in 2026 absent additional consolidation. The 2025 deficit closed at 4.7 percent of GDP. The 2026 target was set at 3.9 percent but war supplements pushed projections toward 4.7 to 5.1 percent. Interest payments will reach approximately 65 billion NIS in 2026. The fundamentals remain investment-grade. The trajectory requires correction.⁴⁷

The IMF Article IV consultations in 2025 and 2026 recommended a consolidation path to a 2.4 percent deficit by 2029, anchored in revenue measures and disciplined defense spending growth. The IMF view is that Israel can sustain elevated defense spending of 6 to 9 percent of GDP if the consolidation is credible. Without consolidation, debt destabilizes by the early 2030s.⁴⁸

The Bank of Israel issued a more pointed warning in early 2026. Sustaining the 300 to 350 billion NIS 10-year supplement at the upper bound, without offsetting consolidation, risks a debt-to-GDP trajectory that breaches 80 percent by the early 2030s, widens sovereign yield spreads against peers, and feeds into renewed inflation pressure. The Bank’s view is that the 350 billion NIS commitment is sustainable only if paired with disciplined civilian spending restraint and targeted revenue measures. The warning sits inside the official policy debate. It does not reject the plan. It conditions the feasibility on execution.⁴⁹

Funding Mechanics for the 350 Billion NIS Plan

Five instruments are available, in descending order of likelihood and political feasibility.

- Defense bonds dedicated to 10-year industrial buildout. Korean precedent. Politically isolating. Fiscal effect transparent.
- Civilian ministry reallocations. Already directed by the Ministry of Finance. Limited capacity beyond a few percentage points of the topline.
- Targeted tax measures. The Finance Ministry has floated raising VAT from 18 to 19 percent (yielding approximately 7 to 8 billion NIS per year) and a new bank tax. Netanyahu and Smotrich resisted in late 2025. Pressure will mount.
- Sovereign wealth fund mobilization through the Citizens Fund (gas royalties), with a structural transfer mechanism.
- Export-driven offset. Each new defense export contract above a threshold commits a fixed share of revenues to domestic capacity expansion.

Sensitivity Analysis on the FMF Gap

The US\$3.3 billion baseline FMF amounts to roughly half a percent of Israeli GDP. The table below projects Israeli defense-to-GDP under three steady-state scenarios after 2028, assuming a US\$712 billion nominal GDP base growing at 3.0 percent real annually.

Scenario	Defense / GDP	Defense USD (2028)	Net Gap from FMF Loss	Required Offset
Restraint case	5.0 percent	Approx. 36 billion	3.3 billion	VAT or bond instrument
Steady state	6.0 percent	Approx. 43 billion	3.3 billion	Bond plus moderate civilian cuts

Scenario	Defense / GDP	Defense USD (2028)	Net Gap from FMF Loss	Required Offset
Sustained mobilization	7.5 percent	Approx. 54 billion	3.3 billion	Bond plus VAT plus growth dividend
High threat	9.0 percent	Approx. 65 billion	3.3 billion	Multiple instruments plus debt

All four scenarios absorb the FMF gap inside a defense budget that already exceeds the gap by a factor of 10 or more. The gap is fiscally trivial at the topline. The political and structural questions concern which instruments fund the larger envelope, not whether the topline can absorb FMF removal.

Debt Trajectory Modeling

Two debt trajectories bracket the realistic range under the 350 billion NIS plan.

Year	Base Case (Disciplined)	Prolonged Conflict Case	Notes
2025 actual	68.6 percent	68.6 percent	End-of-year baseline
2028	70 percent	75 percent	MOU expiry; transition begins
2030	70 percent	78 percent	Plan capital deployment peak
2032	68 percent	80 percent	Bank of Israel risk threshold
2035	65 percent	82 percent	Plan completion approaches
2038	62 percent	83 percent	FMF terminal year (<i>Calcalist</i> target)

The base case assumes IMF-recommended consolidation to 2.4 percent deficit by 2029, sustained 3 percent real growth, and modest VAT or bank-tax adjustments. The prolonged conflict case assumes the Iran threat or a Hezbollah-northern war extends Israeli mobilization beyond 2027 with deficits at or above 5.5 percent through 2032. The Bank of Israel warning threshold sits near 80 percent debt-to-GDP. The base case stays comfortably below it. The prolonged conflict case breaches it by 2032 absent additional consolidation.

Return on Investment of the 350 Billion NIS Plan

The plan’s ROI runs on three channels.

Channel	Annual Effect (Mid-Decade)	Cumulative Effect by 2035
Direct defense industrial jobs	Approx. 35,000 to 50,000 net new	Approx. 350,000 to 500,000 person-years

Channel	Annual Effect (Mid-Decade)	Cumulative Effect by 2035
Defense export revenue growth	Approx. US\$18 to 22 billion per year	Approx. US\$180 to 220 billion
Reduced import substitution	Approx. US\$4 to 6 billion per year	Approx. US\$40 to 60 billion
Indirect tax base expansion	Approx. US\$2 to 3 billion per year tax revenue	Approx. US\$20 to 30 billion
High-tech ecosystem spillover	Approx. 1.0 to 1.5 GDP percentage points	Compounding multiplier

The 350 billion NIS investment, at approximately US\$120 billion, plausibly returns US\$280 to 380 billion in cumulative export revenue, import substitution, and indirect tax base expansion by 2035 if execution holds. The ROI ratio sits between 2.5 and 3.5 over the plan horizon. The estimate is sensitive to global defense spending trends, which remain elevated through 2030 in nearly all consensus forecasts.

The estimate carries a critical caveat. The downside case, where the plan disperses across too many programs or where Israeli labor and supply chain bottlenecks bind, could deliver an ROI ratio below 1.5. Execution discipline at the Defense Industrial Transition Authority level (recommended in Section X) is the single largest determinant of which case obtains.

INSS Consensus on Feasibility

The Israel Institute for National Security Studies concluded in February 2026 that Israel can absorb the loss of U.S. baseline FMF. The aid amounts to approximately half a percent of GDP. Israel’s economy has weathered prior crises, including COVID-19, the 2014 Operation Protective Edge, and Operation Cast Lead without structural damage. INSS notes that elevated defense spending is itself manageable if the consolidation path is credible and the export base continues to grow.⁵⁰

Three risks remain. First, prolonged conflict beyond mid-2027 would compound debt and constrain consolidation. Second, a global slowdown that hits Israeli high-tech valuations would compress tax revenues. Third, a sustained brain drain or demographic emigration would erode the high-tech tax base. Each risk is real. None invalidates the underlying capacity assessment. They condition the speed and discipline with which the transition can be executed.

Securing the Deep Supply Chain: The Autarky Illusion

The 350 billion NIS plan promises an independent munitions and arms industry. The promise is achievable at the assembly level. It is not achievable at the input level. Israel lacks the geological, industrial, and demographic base for true autarky. The plan’s success therefore depends as much on resilient input supply as on visible domestic factory output.

The Energetics Bottleneck

Domestic production of 155mm artillery shells, JDAM-class precision munitions, Tamir interceptors, and air-launched munitions all require energetics that Israel cannot produce at the raw chemical level in adequate quantities. Examples are numerous: nitrocellulose for propellants, RDX, HMX, and TNT precursors for high explosives, PBX-class plastic-bonded explosives for warhead fills, and lithium and other specialty metals for batteries. The new January 2025 contract with Elbit for approximately US\$275 million to expand local bomb and raw-material production, and the January 2026 follow-on multi-year air-munitions contract worth approximately US\$183 million, address the assembly side. They do not address the chemical-precursor side.⁵¹

Critical Materials Beyond Energetics

Three additional input categories demand attention.

- Aerospace-grade titanium. Used in F-35I airframes, missile bodies, and high-performance compressor components. Global supply concentrated in Russia, China, and Japan. Israel imports 100 percent.
- Rare-earth elements. Neodymium, praseodymium, dysprosium, and yttrium for permanent magnets in motors, actuators, and electric propulsion. Approximately 80 percent of global processed supply runs through China. Israel imports nearly all.
- Microelectronics. Application-specific integrated circuits for radar, electronic warfare, guidance, and seekers. Israel hosts world-class fabless design (Tower Semiconductor, plus dozens of startups), but advanced node fabrication runs through Taiwan (TSMC), Korea (Samsung), and the United States (Intel). Disruption to any of these substrates breaks Israeli production within weeks.

Resilient Sourcing Strategy

The plan must allocate explicit capital to four input-supply mechanisms.

- Strategic stockpiles of raw energetics. Six-to-12-month inventory of nitrocellulose, RDX, and TNT precursors at hardened facilities, sufficient to bridge a major resupply disruption.
- Allied non-NATO supply contracts. India is a credible partner on rare earths, energetics, and select alloys, particularly through the existing IAI-Tata, Rafael-Kalyani, and Elbit-Adani joint ventures. Australia is credible on rare earths and aerospace alloys. Brazil and Argentina offer rare-earth and aluminum capacity that has not been fully developed.
- Domestic processing investment. Selective rare-earth and energetics processing in Israel even at higher unit cost, accepting the cost premium as insurance against disruption. The Defense Sovereignty Fund recommended in Section X should ring-fence approximately five billion NIS specifically for input-substrate capacity.
- Allied-flag manufacturing reservation. Bilateral arrangements with the United States, the United Kingdom, Australia, and India that reserve a defined share of allied raw-material output for Israeli emergency procurement under defined conditions.

True autarky is unachievable for an economy of 9.5 million people. Resilient interdependence with credible non-Chinese, non-Russian suppliers is achievable. The plan must execute the second, not promise the first.

The Macroeconomic Balancing Act: Crowding Out the Startup Nation

The 350 billion NIS commitment lands inside an economy whose tax base depends on civilian high-tech. The transfer of capital and labor from civilian high-tech into defense industrial production creates a measurable risk to the very revenue stream that funds the plan. The risk is manageable. It is not negligible.

The Brain Drain Mechanic

Israel's civilian technology sector employs approximately 400,000 workers and generates 18 percent of GDP and a disproportionate share of corporate income tax revenue. Pumping 35 billion NIS annually into domestic defense procurement bids up engineering salaries across cybersecurity, autonomy, optronics, signal processing, and AI domains. Defense work is largely cleared work: it requires Israeli citizenship and security clearance, narrowing the candidate pool relative to civilian roles. Combined with the Nagel Committee's recommended 36-month service extension and increased reserve obligations, the labor market for skilled technical talent will tighten significantly.

The risk: civilian B2B SaaS, fintech, and commercial cybersecurity startups lose the marginal engineer to defense employers, lose growth momentum, and produce less corporate income tax. The same companies have driven Israeli growth and acquisition activity through the past decade. A sustained flow of talent from civilian to defense markets compresses GDP growth at the precise moment the plan needs the tax base to expand.

Mitigation: Dual-Use Spillover Discipline

The plan can mitigate the crowding-out risk through structural design choices. Three matter most.

- Dual-use technology mandate. Every defense R&D contract above a threshold value should require explicit civilian commercialization pathways. The model is the U.S. Department of Defense's Small Business Innovation Research program, which funds defense innovation while requiring commercial application. Israel's Israel Innovation Authority can administer the equivalent at scale.
- Talent mobility framework. Israeli engineers should be able to move between defense and civilian roles without losing security clearance, without permanent disclosure restrictions, and without contractual non-competes. The current system locks talent into defense employers. The post-aid plan needs the opposite: a fluid market that lets capabilities recycle between domains.
- Civilian high-tech tax preference. Targeted corporate income tax credits for civilian high-tech R&D spend, calibrated to offset the wage inflation effects of defense procurement. The U.K. patent box and Korean R&D credit precedents apply.

The Dual-Use Compounding Effect

Done well, the plan compounds rather than crowds out. Israeli defense innovation has historically generated civilian spinoffs at rates other economies cannot match: drip irrigation from agricultural defense applications, instant messaging from military communications, autonomous driving from missile guidance, GPS-denied navigation from maritime applications, and the entire cybersecurity industry from Unit 8200 alumni networks. The 350 billion NIS investment, if structured with dual-use mandates, can extend this

compounding effect rather than disrupt it. Done poorly, the investment becomes pure defense spending that drains civilian capacity. Execution determines which case obtains.⁵²

Strategic Implications of the 350 Billion NIS Decision

The plan reshapes three dimensions of the Israeli defense industrial environment.

First, it confirms that defense and counter-terror deep-tech is the priority capital allocation domain in the Israeli ecosystem. No other sector has comparable government commitment over a decade.

Second, it creates a domestic procurement pull. Companies funded through the IIA tender that produce relevant capability will benefit from a US\$35 billion annual customer in the Israeli MOD.

Third, it accelerates the export imperative. Companies must build for both domestic and export markets from inception. Single-market companies will not scale fast enough to absorb the available capital.

VI. The Procurement Downside: Export-Driven Scaling and the Wartime Allocation Dilemma

Every industrial strategy carries an internal contradiction. The 350 billion NIS plan is no exception. The plan depends on foreign sales for production multipliers. Those same foreign sales, executed during high-intensity conflict, can deplete domestic stockpiles at the precise moment Israel needs them most. The April 2026 controversy over continued Arrow shipments to Germany during Operation Roaring Lion is the case study. It deserves close analysis because future conflicts will produce similar dilemmas across many systems.

The Episode

Israel honored its existing Arrow procurement contract with Germany during the June 2025 Iran 12-day war and the broader Operation Roaring Lion. Arrow 3 interceptors continued to ship to the German Air Force even as Iran launched hundreds of ballistic missiles at Israel. The combined Arrow contracts with Germany totaled approximately US\$6.7 billion across the September 2023 base agreement and follow-on orders. The deal was the largest defense export contract in Israeli history.⁵³

The Dimona and Arad Incidents

Critics of the export continuation tied two specific mass-casualty incidents to Arrow stockpile depletion. In Dimona and Arad, the IDF used David's Sling rather than Arrow against incoming Iranian ballistic threats. David's Sling is optimized for medium-range ballistic and cruise missile threats. Arrow is optimized for long-range exo-atmospheric ballistic interception. In both incidents, David's Sling missed, producing deaths and hundreds of injuries. The April 28, 2026, *Jerusalem Post* coverage frames the substitution as a direct consequence of allocation pressure created by ongoing German deliveries.⁵⁴

Critics tied two mass-casualty incidents to Arrow stockpile depletion. The IDF used David's Sling, optimized for medium-range threats, rather than Arrow, optimized for long-range Iranian ballistic threats. In both cases, David's Sling missed.

The Counter-Argument: Net Capacity

Israeli officials and IAI defended the export continuation on capacity grounds. The German contracts funded a 7- to 10-fold expansion of Arrow production capacity. Without the German revenue stream, Israel would have entered the Iran war with materially fewer Arrow interceptors in inventory. The Finance Ministry stalled Knesset approvals for domestic Arrow buildup for much of the year following the June 2025 clash. German payments were frequently the only reliable cash flow funding production line expansion at IAI. The first German deal roughly doubled Israeli Arrow production capacity. The second contract roughly tripled or quadrupled it. Future expansion accompanies Arrow 4 and Arrow 5 development.⁵⁵

The Strategic Trust Calculus

A second argument supported continuation. Germany was among the last Western governments to impose partial export restrictions on Israel during the Gaza war. Germany was also among the first to lift them. The Arrow deal positioned Berlin as the European anchor of Israeli defense industrial cooperation. A unilateral pause in Arrow deliveries during Operation Roaring Lion would have damaged the trust foundation of that anchor relationship at the precise moment Israel needed European partners most. The pause might have triggered cascading delays on follow-on Arrow 4 procurement, on Trophy on Leopard 2, on cyber liaison expansion, and on the broader European Sky Shield Initiative.

Israeli officials judged that the long-term capacity gain plus the strategic trust gain together exceeded the short-term allocation cost. Shoot-down rates against Iranian threats remained high, near 90 percent. Casualties, while real, were limited.

The Industrial Model

Three structural realities make the dilemma recurrent rather than one-off.

- Israeli defense firms generate 75 to 80 percent of revenue from exports. The export market funds R&D, expands production capacity, and sustains industrial employment. Pulling export deliveries during every Israeli conflict would collapse the industrial model.
- Production capacity is fixed in the short term. New factory lines take years to commission. A surge in domestic demand cannot be met by reallocating capacity that does not exist. The choice during conflict is between depleting existing inventory faster or accepting reduced engagement rates.
- Foreign customers possess contractual remedies. Force majeure clauses protect emergencies, but discretionary delivery pauses without contractual basis trigger penalty payments and reputational damage with downstream buyers.

The Moral and Operational Test

The honest framing is uncomfortable. The 350 billion NIS plan deliberately ties Israeli industrial scale to foreign sales. Foreign sales create production multipliers that deliver more total interceptors over time. But during specific conflicts, those export commitments compete with immediate domestic need. Lives may be lost in the gap between current inventory and future scale.

The Dimona-Arad case is unresolved on causality. Critics assert the David's Sling substitutions reflected Arrow depletion. Defenders assert the substitutions reflected tactical choices independent of inventory levels. The data to settle the question definitively is not public.

What is not in dispute: the structural tension between export commitment and domestic readiness exists. It will recur. The plan must engineer responses now rather than improvise them under fire.

Risk Matrix for Future Allocation Incidents

The Arrow-to-Germany episode is one observation. The structural pattern repeats across systems. The matrix below ranks recurrence probability and operational impact for the most likely future allocation incidents through 2030, on a low-medium-high-severe scale.

Scenario	Probability	Impact	Mitigation Lever
Arrow stockpile depletion during Iran or Hezbollah surge	High	Severe	Crisis clauses; stockpile mandate
David's Sling diversion to fill Arrow gap (recurrence)	Medium-High	Severe	Capacity front-loading; layered defense doctrine
Iron Dome interceptor surge in multi-front Hamas/Hezbollah scenario	High	Severe	Camden, Arkansas, plant scale-up; reserve Tamir inventory
155mm artillery shell shortage in extended Gaza or Lebanon op	High	High	Domestic Elbit/IMI line expansion; allied backfill
Precision-guided munitions (JDAM, GBU-39) bottleneck	Medium	High	Indigenous PGM substitution; U.S. supplemental
Loitering munitions export contention (UAE, India, Greece)	Medium	Medium	Customer cap at 25 percent; tiered delivery schedule
F-35 engine and spare part dependence	Low	Severe	Allied stockpile pre-positioning; selective indigenization
EW and cyber tool export controversy mid-operation	Medium	Medium	Knesset oversight; export licensing pause authority
Counter-UAS export volume vs. domestic IDF need	Medium	Medium	Reserve fleet allocation; U.S. R2S equivalent
Reserve manpower shortage compounding industrial labor gap	High	High	Dual-track service reform; foreign-worker authorization

Three patterns emerge. First, the highest-impact scenarios cluster around interceptors and air defense, because these systems have low substitution flexibility under fire. Second, several Medium-Medium scenarios will become High-High if multi-front conflict extends beyond 90 days. Third, the same five mitigations cover most scenarios. The 350 billion NIS plan should engineer toward the mitigation set rather than the individual scenarios.

Recommended Mitigations

Five mitigations deserve immediate consideration. None are politically simple. All are necessary.

1. Crisis Clauses in Export Contracts

Action: All future Israeli defense export contracts above a threshold value (proposed: US\$100 million) must include automatic delivery suspension provisions triggered by formal Israeli wartime declaration. Suspension durations are capped (proposed: 90 days). Compensation to the foreign buyer flows from a sovereign reserve fund rather than the prime contractor balance sheet.

Rationale: The current contractual structure creates a binary choice between full delivery and contract breach. The crisis clause creates a third path. The structure must be politically negotiated with major

customers (Germany, India, Greece, the United States) but is not unprecedented. Force majeure clauses already exist on most contracts. The proposed mechanism extends and operationalizes them.

2. Strategic Stockpiling Mandates

Action: The Israeli Ministry of Defense, working with the Ministry of Finance, sets binding minimum domestic stockpile thresholds for high-consumption interceptors and munitions. Production allocations during peacetime favor stockpile filling at 60 to 70 percent until thresholds are met. Export deliveries proceed only above the threshold.

Rationale: The current allocation framework prioritizes export revenue because export contracts are concrete and domestic stockpiling is implicit. Mandates make the implicit explicit and shift the political decision upstream of the operational moment.

3. Customer Diversification

Action: Israeli industry caps single-customer concentration at a defined share (proposed: 25 percent of any system's annual production). Diversification reduces both political and contractual risk.

Rationale: Germany is a critical customer. Germany should not be the only critical customer. The current Arrow concentration creates a single point of failure if German politics shifts. Diversification across the European Sky Shield, Indian, Greek, and Abraham Accords markets reduces single-relationship leverage.

4. Knesset Oversight on Wartime Continuities

Action: Export deliveries of strategic systems (interceptors, long-range strike capability, advanced sensors) during a declared state of war require notification to the Knesset Foreign Affairs and Defense Committee within 72 hours and reaffirmation within 30 days.

Rationale: The Dimona-Arad allocation decisions occurred at the political-strategic level (the Defense Ministry deferred queries from IAI to the political authority). The decisions deserve more than executive-branch coordination. The Knesset oversight introduces an explicit accountability layer.

5. Front-Loaded Domestic Capacity Investment

Action: Within the 350 billion NIS envelope, dedicate the first 60 billion NIS (approximately three years of capital deployment) to factory and raw material capacity rather than research and platform programs. Capacity comes online faster than capability.

Rationale: The procurement downside compresses as domestic capacity expands. Front-loading capacity reduces the period during which export and domestic demand compete on a fixed production base. The marginal returns on factory investment exceed the marginal returns on advanced platform R&D in the early years of the plan.

Conclusion of Section VI

The Arrow-to-Germany episode was a near-textbook case of the procurement downside the 350 billion NIS plan must manage. The decision to continue deliveries was defensible on a multi-year capacity calculus.

The decision was also painful in operational terms in real time. The unresolved question is whether mass-casualty incidents reflected an avoidable allocation failure or an unavoidable wartime cost.

Both possibilities require the same response: institutionalize crisis clauses; mandate strategic stockpiles; diversify customers; empower Knesset oversight; and accelerate domestic capacity. Failure to do these things converts an industrial strategy into a recurring tragedy. Success converts the same strategy into the foundation of genuine Israeli defense autonomy.

VII. NATO and Multilateral Pivots

Israel's defense relationships extend well beyond the bilateral with Washington. The Mediterranean Dialogue, the European Defence Fund ecosystem, the Abraham Accords defense framework, and the bilateral relationships with Germany, India, Greece, Cyprus, and Japan all matter. Each becomes more important as the U.S. relationship restructures.

NATO: Mediterranean Dialogue and Beyond

Israel joined NATO's Mediterranean Dialogue in February 1995. The Dialogue includes Algeria, Egypt, Israel, Jordan, Mauritania, Morocco, and Tunisia.⁵⁶

On October 16, 2006, NATO and Israel finalized the first Individual Cooperation Programme (ICP) under the enhanced Mediterranean Dialogue. Israel contributes to NATO's maritime Operation Active Endeavour and now participates in Operation Sea Guardian.⁵⁷

In May 2017, the Mission of Israel to NATO opened at NATO Headquarters in Brussels, headed currently by Charge d'Affaires Jonathan Rosenzweig. The mission includes a Political Section and a Military Section. The first Israeli Ambassador, Leshno-Yaar, presented credentials in September 2016 after Turkey withdrew its veto.⁵⁸

The NATO relationship has structural limits. Israel cannot become a NATO member because of the alliance's Article 5 mutual defense commitment and the implications for unresolved territorial disputes. Israel can, however, deepen the partnership in three ways: contributing to NATO operations beyond the Mediterranean (cyber, counterterrorism), participating in NATO Centers of Excellence, and integrating Israeli systems into NATO interoperability frameworks (Arrow 3 in Sky Shield is the precedent).

Israeli participation in the 2026 NATO counter-unmanned aerial systems exercises in Romania extended the interoperability pattern beyond ballistic missile defense into the small-drone threat domain. Israeli C-UAS technology, validated against Hamas and Hezbollah drone swarms during the post-October 7 war, is positioned to integrate into NATO architectures as the eastern-flank drone threat from Russian operations grows.⁵⁹

European Defence Fund and the Subsidiarization Path

The European Defence Fund (EDF) has a budget of €7.3 billion for 2021-2027, with €2.7 billion for collaborative defence research and €5.3 billion for capability development. The 2025 EDF call funded 57 projects with €1 billion, supporting 634 entities from 26 EU Member States plus Norway and Ukraine.⁶⁰

Israeli companies are not directly eligible for EDF funding. EDF rules require recipients to be EU-based, with executive management in the EU, and not controlled by a non-associated third country. Norway is the only associated country to date. However, Israeli subsidiaries incorporated in the EU can participate provided the host Member State guarantees European control over management, IP, sensitive information, and export decisions.⁶¹

The subsidiarization path is the practical route. IAI Italy, Elbit Systems Deutschland, Rafael UK, and similar entities can compete for EDF projects with proper governance structures. The path is administratively expensive and limits IP repatriation, but it is open.

PESCO (Permanent Structured Cooperation) operates a parallel framework with similar third-country rules. The combined EDF-PESCO architecture grants a 10 percent co-financing bonus to projects under PESCO. Israeli industry should target both.

The Arrow 3 Sale to Germany

Germany formally signed the Arrow 3 procurement agreement in September 2023 at a value of approximately €4 billion, equivalent to US\$4.6 billion. The deal is the largest defense export in Israeli history. The first Arrow 3 battery transferred to the German Air Force on December 3, 2025. Full operational readiness is targeted for 2030.⁶²

The sale anchors Germany's contribution to the European Sky Shield Initiative (ESSI), a 19-nation framework launched in 2022 in response to the Ukraine invasion. Arrow 3 represents the upper exo-atmospheric tier of the multi-layer architecture. Germany is reportedly negotiating Arrow 4 procurement as well.⁶³

The Arrow 3 sale carries strategic significance beyond the dollar figure. It establishes the precedent that Israeli technology can integrate into NATO architecture as the apex layer rather than as a supplementary capability. Future German procurements of David's Sling components and David's Sling Stunner variants (Sky Ceptor) into Patriot upgrades follow the same pattern.

Trophy on Leopard 2

In 2021, Germany contracted Rafael for the Trophy active protection system on its Leopard 2 fleet. First production tanks rolled out in November 2025 to the German Army and the Norwegian Armed Forces. The program reinforces the Israeli platform-agnostic export model and contributes to the European armored vehicle modernization wave.

Abraham Accords Defense Framework

The 2020 Abraham Accords created political space for defense cooperation that did not previously exist. Three relationships matter.

UAE: The Edge Group, the UAE state defense conglomerate, has signed multiple cooperation agreements with Israeli primes. Joint ventures cover counter-drone systems (Smart Shooter, Skylock), maritime security, and cyber. UAE participation in joint exercises with Israel and the United States has normalized.

Bahrain: Limited but symbolic defense cooperation, focused on maritime security and naval interoperability.

Morocco: Major procurement of Israeli systems including Spike NLOS, Hermes 900 UAVs, and air defense radars. Morocco has emerged as the largest Abraham Accords procurement market for Israeli industry.

Saudi Arabia: Not formally a party to the Accords. Quiet defense-adjacent cooperation continues, particularly on counter-Iran missile defense awareness. A formal normalization agreement, if achieved, would unlock substantial Saudi procurement.

India: The Largest Non-Western Customer

India has been the largest single buyer of Israeli defense exports for over a decade. Major programs include Phalcon AWACS, Heron and Searcher UAVs, Spike anti-tank missiles, Spice precision-guidance kits, and Barak-8 surface-to-air missiles. The 2024 announcement of joint manufacturing arrangements between IAI and Adani Defense, between Elbit and the Tata Group, and between Rafael and Kalyani Group expanded the relationship from buyer to co-producer.

India represents the largest non-Western opportunity for Israeli industry under any phaseout scenario. Indian Make-in-India procurement requirements increasingly demand local production. Israeli industry has demonstrated willingness to comply that U.S. and European competitors have not matched.

Greece, Cyprus, and the 3+1

The Greece-Cyprus-Israel trilateral expanded into a 3+1 framework with the United States in the late 2010s. Defense cooperation includes the Greek procurement of PULS rocket artillery from Elbit (with Hellenic Parliament approval announced in November 2025), joint air force exercises, and East Mediterranean energy security coordination.

Greece has emerged as the most defense-active EU partner for Israel. The PULS sale, the M-346 trainer modernization with Elbit, and Greek interest in Iron Dome derivatives form a coherent procurement pattern.

Implication for the Phaseout

Multilateralization compounds. Each successful sale to a NATO ally, each EDF subsidiarization, each Abraham Accords joint venture, each Indian co-production agreement reduces Israel's marginal dependence on the U.S. relationship. The cumulative effect over a decade can substitute for FMF in industrial terms, even if it cannot substitute for political-strategic alignment.

VIII. The Case For and Against Ending Aid

Both ending and continuing aid have credible arguments. This section presents them on their own terms.

The Israeli Sovereignty Case

The conservative Israeli case rests on national dignity. The November 26, 2025, *Jerusalem Post* column argues that aid grants Washington enormous leverage over Israeli decision-making. The Biden administration's May 2024 hold on heavy munitions transfer demonstrated the leverage in operation. The columnist concludes that Israel of 2025 is not the Israel of 1979 and that the time has come for political status to reflect economic and technological reality.⁶⁴

Caroline Glick has argued for years that aid functions as an excuse for Israeli strategic passivity, that dependence creates incentives for risk aversion that endanger Israeli lives, and that Israeli leaders ignore Israeli interests because they cannot afford to lose the aid.⁶⁵

Yoram Ettinger, who began researching the topic 15 years ago, supports Netanyahu's December announcement. Ettinger argues that Israel's economy will reach approximately US\$1 trillion within a decade, making the aid a small percentage of GDP and thus replaceable.⁶⁶

The American Conservative Transactional Case

The American right case mirrors the Israeli sovereignty case. Senator Lindsey Graham (R-SC) proposed legislation to accelerate the phaseout, arguing that termination would save U.S. taxpayers billions that could be plowed back into the U.S. military. Graham represents the Trump-aligned conservative position that prefers transactional alliances over financial subsidy.⁶⁷

Jacob Siegel and Liel Leibovitz argued in *Tablet* in 2023 that the relationship should become more forthrightly transactional, that ending aid would not mean ending cooperation, and that on the contrary it would clarify mutual interests.⁶⁸

The Heritage Foundation has produced a 19-year phaseout plan as part of its broader Project 2025 work. The Foundation for Defense of Democracies has published a parallel framework. Both Heritage and FDD propose successor architectures that combine reduced FMF with expanded co-production and direct Israeli purchases, with annualized totals near US\$4.5 to 5 billion.⁶⁹

Matt Welch and others writing in *Reason* and similar outlets have noted a structural irony in the current arrangement. FMF dollars largely recycle to American defense contractors. The aid functions as much as a subsidy to U.S. industry as a subsidy to Israeli security. The leverage that aid theoretically grants Washington has been unevenly applied: held in May 2024, released the same year, debated again throughout the 2024 election cycle. The argument is that pure commercial relationships, with strong technology ties, prove more sustainable long-term than grant-aid relationships subject to political pressure.⁷⁰

The Economic-Distortion Argument

Joel Bainerman, writing in the *Middle East Quarterly* in December 1995, made the most sustained economic case against U.S. aid to Israel. Bainerman argued that grant aid inflated Israeli consumption,

distorted housing and capital allocation, and impaired the export discipline that drives competitive economies. His thesis drew from the broader development economics critique of foreign aid associated with Peter Bauer and Albert Hirschman, applied specifically to the Israeli case.⁷¹

Major General (Reserve) Gershon Hacoheh extended the critique on operational grounds. In a 2016 *Defense News* interview and in subsequent writing, Hacoheh called U.S. aid harmful and corrupting. He argued that aid creates total dependence on U.S. platforms, suppressing creative ground-warfare thinking against asymmetric threats. Israel becomes addicted to air power and to expensive technology upgrades at the expense of operational adaptation. Daniel Pipes has echoed and extended this argument.⁷²

Both arguments converge on a paradox. The aid that funded Israeli industrial capacity through OSP simultaneously suppressed certain innovation incentives by removing the export discipline. The 2016 OSP phaseout, in this reading, was already correcting the distortion. The phaseout of FMF entirely completes the correction.⁷³

The Critical-Left Accountability Case

The progressive case as articulated by J Street has been covered. The harder critical-left position, articulated in IMEU Policy Project analyses and in Al Jazeera expert roundtables featuring Ori Goldberg, HA Hellyer, Hamze Attar, and Daniel Levy frames the aid as enabling impunity rather than security. The argument: aid shields Israel from accountability on Gaza and West Bank operations, provides U.N. veto cover, and underwrites continued occupation. Ending aid would force political restraint or accelerate isolation.⁷⁴

The IMEU specifically warns that the Heritage and FDD successor frameworks, by replacing FMF with deeper co-production and joint development, deepen complicity rather than ending it. The replacement architecture flows more capability rather than less, particularly on cyber, AI, drone, and border surveillance technologies. The phaseout in this framing is not retreat, but escalation.⁷⁵

This position does not align with the strategic case this paper develops, but it must be acknowledged on its own terms. It will shape progressive politics in the United States and parts of Europe through the late 2020s. Israeli industry and U.S. industry both should anticipate that the post-aid replacement architecture will face its own political opposition, perhaps more intense than the opposition to the current FMF arrangement.

Hypothetical Impacts of an Abrupt Aid Cutoff

The Al Jazeera roundtable produced the most granular scenario analysis of an abrupt termination. The major findings carry instructive weight even outside the Al Jazeera framing.

- International: Western political support frays without the U.S. anchor. Even Germany's post-Holocaust commitment becomes harder to sustain. Sanctions and U.N. action become more plausible, though no major power leads.
- Regional: No immediate adversary attack. Israeli deterrence rests on Israeli capability, not U.S. commitment. The deterrence holds. The political incentive structure shifts.
- Financial: Short-term pain, particularly in the technology sector tied to defense contracts. No collapse. The high-tech base provides a buffer. Loan guarantees decline.

- Israeli politics: The Netanyahu coalition reframes the cutoff as an independence catalyst. Internal pressure builds. Domestic moral reckoning intensifies absent external cover.
- Military: Gaza-equivalent operations become unsustainable within approximately one year. Munitions stockpiles compress. R&D edge persists but capability deployment slows.
- Gaza/West Bank: Senior IDF leadership pushes immediate ceasefire on resource grounds. War becomes politically and economically unsustainable.

This scenario describes an abrupt 2026 cutoff, not the managed glide path described in Section IX. The contrast underscores why the managed glide path is preferable to an abrupt termination from any party's perspective. The structural shift can occur. The shift cannot occur safely without the transition architecture.

The American Public Opinion Trajectory

Pew Research Center polling across 2024 to 2026 documents a sharp decline in U.S. public favorability toward Israel, particularly among Americans aged 18 to 34. Initial post-October 7 solidarity gave way to broad skepticism as the Gaza campaign extended. Unfavorable views among the youngest American voters rose to roughly 70 percent by early 2026. Among Americans overall, unfavorable views approached 60 percent by mid-2026. The trend operates in both parties. The trend operates faster among Democrats but is now visible among Republicans as well.⁷⁶

Victor Davis Hanson, writing in a 2026 Middle East Forum analysis, frames the public opinion shift as in part a function of disinformation about the Gaza campaign and rising antisemitism. Hanson argues that the decline reflects an information environment problem rather than a substantive shift in American interests. Whatever the cause, the political reality is that the constituency for unconditional grant aid has weakened across both parties.⁷⁷

The public opinion trajectory matters because it reduces the political feasibility of large successor frameworks. The US\$38 billion 2016 MOU was politically possible because Americans broadly supported Israel. A US\$38 billion successor MOU is politically impossible in the current environment. The transition architecture must shrink the political target.

The Progressive Accountability Case

The progressive case takes a different tone but reaches an overlapping conclusion. Jeremy Ben-Ami, president of J Street, argued in *The Forward* on April 14, 2026, that the current relationship is not sustainable, aligned with American laws and values, or politically beneficial to Israel. J Street called to phase out U.S. taxpayer subsidies for Israel's military purchases, while preserving access to systems like Iron Dome.⁷⁸

Six years ago, former Israeli Foreign Minister Yossi Beilin and former U.S. Ambassador Dan Kurtzer proposed phasing out security assistance, arguing that it would ultimately benefit both countries.⁷⁹

The progressive case differs from the conservative case primarily on framing. Progressives emphasize accountability and U.S. law compliance. Conservatives emphasize sovereignty and transactional relationships. Both endpoints converge on phaseout.

Legacy Leverage and the China Trap

The conservative sovereignty case implies that ending FMF removes American leverage over Israeli decision-making. The implication is partially correct but requires substantial geopolitical nuance. Two structural mechanisms keep significant U.S. leverage in place long after FMF goes to zero.

Sustainment as Leverage

FMF terminating in 2038 does not terminate the IDF's dependence on U.S. platforms. The Israeli Air Force will fly the F-35I, the F-15IA, and the AH-64 Apache for decades after the last FMF dollar disburses. The U.S. retains enormous leverage through the sustainment side of those platforms. End-Use Monitoring (EUM), administered by the State Department's Blue Lantern program and the Department of Defense's Golden Sentry program, attaches monitoring obligations to every U.S.-origin defense article that survives transfer of ownership.⁸⁰

The Leahy Law, codified at 22 U.S.C. § 2378d and 10 U.S.C. § 362, restricts U.S. assistance to foreign security forces credibly implicated in gross violations of human rights. The law applies to assistance broadly, not exclusively to FMF, and would continue to operate against any U.S. weapon system, training program, or sustainment package even after FMF terminated.⁸¹

Beyond formal monitoring and Leahy applicability, the U.S. retains a near-monopoly on spare parts, software updates, mission data files, and depot maintenance for high-end U.S. platforms. The F-35's Autonomic Logistics Information System (ALIS), now succeeded by the Operational Data Integrated Network (ODIN), routes operational data through Lockheed Martin and U.S. government servers. Mission data files for the F-35I are produced at the U.S. Reprogramming Laboratory at Eglin Air Force Base. Israel could not operate the F-35I sovereignly even if it wanted to. The F-15IA, KC-46, AH-64, and CH-53K carry similar dependencies. True operational sovereignty on U.S. platforms takes decades to construct, requires either reverse engineering or successor platform development, and is functionally incompatible with the QME requirements the post-aid framework will preserve.

The implication: the FMF phaseout does not weaken the U.S. position as much as the rhetoric suggests. The U.S. retains structural leverage through sustainment that no FMF reduction can dismantle. The sovereignty argument, on Israeli analysis, is partially accurate but partially overstated.

The China Veto

FMF has long served as a de facto American instrument to prevent Israeli technology transfers to China. The 2000 cancellation of the Phalcon airborne early warning system sale to China, after Washington threatened aid consequences, established the precedent. Subsequent restrictions on Harpy drone upgrades to China and on Israeli sales of advanced electronics to Chinese defense entities followed the same pattern. The aid carrot has paid for the China veto.⁸²

If FMF terminates, the structural mechanism that enforced the China veto disappears with it. The United States is unlikely to accept that outcome. The successor framework will almost certainly include codified, treaty-level restrictions on Israeli dual-use technology transfers to Beijing as a condition of continuing the Joint Advanced Technology Envelope, the missile defense allocation, and any preserved high-end FMS

access. The restrictions will likely cover semiconductors, AI, advanced sensors, autonomous systems, hypersonic technology, quantum sensing, and biotech with defense applications.

Israeli industry should prepare for this constraint. The current Israeli export-control system through DECA already restricts certain China-related transfers. The post-aid framework will tighten the constraint further. Companies whose business models depend on Chinese partnerships should expect to choose between U.S. defense market access and Chinese commercial market access. The choice is binary at the corporate level even if it remains nuanced at the policy level.

This dimension matters for both the case for and the case against ending aid. The sovereignty argument should be read with the understanding that sovereignty here is partial: Israel gains decision space on military operations but loses decision space on technology transfers to a defined adversary. The trade is reasonable. The trade is not invisible.

The Continuity Case

The continuity case is currently weakened but not absent. Three arguments matter.

First, signaling. Aid embodies the U.S. commitment to Israeli security in a tangible form. Even at low marginal industrial benefit, the political signal of the annual appropriation matters in regional and global perception.

Second, missile defense funding. The US\$500 million annual missile defense appropriation funds Iron Dome, David's Sling, and Arrow co-development. This funding is structurally distinct from FMF, sits in the Pentagon budget, and serves direct U.S. interests. Continuing this stream is uncontroversial under any phaseout scenario.

Third, baseline assurance. The aid provides Israel with a known minimum revenue base for procurement planning. Removing it without a clear successor framework introduces planning uncertainty, particularly during a multi-front war.

The Synthesis

Each case is partially correct. The aid creates leverage that occasionally cuts against Israeli interests. The aid also funds capability that Israel could not otherwise afford in the immediate term. The aid increasingly subsidizes U.S. industry rather than Israeli industry. The aid retains political signaling value.

The conclusion is not whether to phase out, but how. The *Calcalist* report on the upcoming negotiations confirms that both governments have implicitly accepted the phaseout direction. The question is the terminal architecture and the transition path.

IX. Scenarios for the Phaseout

Four scenarios bracket the realistic range of outcomes. This section assesses each on probability, fiscal impact for Israel, industrial impact for U.S. and Israeli companies, and political plausibility.

Scenario A: Hard Stop FY2028

Description: The current MOU expires September 30, 2028. No successor framework, FMF goes to zero on October 1, 2028, and missile defense co-development continues through MDA budget.

Probability: Low (10 to 15 percent). Senator Graham's accelerated phaseout legislation could produce this outcome if combined with a Trump administration unwilling to negotiate a successor. The *Calcalist* report suggests both governments prefer a managed transition.

Fiscal impact: Israel must absorb US\$3.3 billion annual gap immediately. The 350 billion NIS plan absorbs this with margin to spare. The 2026 budget at 112 billion NIS is already 8 to 10 times the lost FMF.

Industrial impact, U.S.: Major prime backlogs (Lockheed F-35 line, Boeing F-15IA, KC-46) lose Israeli orders unless Israel converts to direct purchase. Most likely Israel shifts to selective direct procurement, maintaining 60 to 70 percent of current order flow. U.S. primes lose US\$1 to 1.5 billion per year in baseline.

Industrial impact, Israeli: Mostly positive. The OSP phase-out happens anyway in FY2028. The hard stop accelerates the substitution of U.S. industrial buyers with European, Indian, and Abraham Accords buyers.

Political: Disruptive. Signals abrupt end to a 47-year aid relationship. Risk of perceived rupture in alliance even though operational cooperation continues.

Scenario B: Glide Path 2028 to 2038 (the *Calcalist* Model)

Description: New MOU covering FY2029 to FY2038. FMF declines linearly from US\$3.3 billion to zero over 10 years. Missile defense allocation continues. New joint development envelope replaces declining FMF dollar-for-dollar but flows through MDA and DARPA-equivalent channels.

Probability: High (45 to 55 percent). The *Calcalist* report identifies this as the framework now under discussion. Both governments have political cover: Israel preserves the appearance of continuity, the United States preserves leverage during the transition, and U.S. primes face a manageable revenue glide path.

Fiscal impact: Israel absorbs US\$330 million incremental annual gap. Trivial against the US\$35 billion annual defense budget.

Industrial impact, U.S.: U.S. primes face a 10-year managed decline of approximately US\$100 to 200 million per year in Israeli orders. Many U.S. primes will simultaneously gain order flow from Israel converted from MDA-funded co-development. Net impact close to zero.

Industrial impact, Israeli: Most favorable. The decade allows orderly buildout of substitute markets. The 350 billion NIS commitment provides domestic procurement floor.

Political: Optimal. Both governments declare success. The phaseout is framed as graduation rather than termination.

Scenario C: 19-Year Heritage Phaseout

Description: The Heritage Foundation plan, mentioned by Heritage's Flesch in January 2026 reporting, phases FMF out over 19 years. FMF declines from US\$3.3 billion gradually toward zero by FY2047.

Probability: Low (10 to 15 percent). The Heritage timeline is structurally too slow for the political moment. Both Netanyahu and Graham have signaled compression rather than extension.

Fiscal impact: Negligible per year. Israel absorbs approximately US\$175 million annual reductions.

Industrial impact: Minimal disruption. Effectively a continuity scenario with ceremonial reductions.

Political: Soft consensus. Risk that the slow timeline allows opposition movements (J Street, Cato, Quincy) to continue agitation, undermining the political stability the long phaseout was meant to achieve.

Scenario D: Conditional Restructure

Description: FMF grant converts partially to FMF loan (Polish model). Loans are forgivable under specified conditions. Missile defense co-development expands. New joint advanced technology envelope captures dual-use innovation.

Probability: Moderate (20 to 30 percent). This scenario could merge with B as a structural feature: B describes the top-line glide path; D describes the instrument mix.

Fiscal impact: Israel absorbs interest on loans, approximately US\$100 to 200 million per year. Minor.

Industrial impact, U.S.: Loans preserve baseline U.S. industrial revenue. U.S. primes face no immediate disruption.

Industrial impact, Israeli: Mixed. Loans lock Israel into U.S. procurement (loans must finance U.S. articles) but create financial pressure that accelerates substitute market development.

Political: Workable. The loan structure removes the political target of unconditional grants while preserving the financing pipe.

Probability-Weighted Outcome

The most likely outcome combines elements of B and D. The *Calcalist*-described framework provides the top-line. Loan instruments preserve U.S. industrial orders. Missile defense and joint advanced technology envelopes preserve the strategic content. Israel exits the FMF system over a decade with a managed glide path. The transition concludes around 2038, 20 years after the 2018 start of the current MOU.

This outcome is also the best for industrial planning on both sides. The decade provides a window in which Israeli and U.S. companies can build to scale before the unsubsidized terminal state, and the window aligns with the 350 billion NIS domestic capital pull on the Israeli side.

X. Recommendations

This section is intentionally action-oriented. Each recommendation specifies the action, the actor, and the rationale.

For the Government of Israel

1. Establish a Defense Industrial Transition Authority.

Action: The Prime Minister appoints a Defense Industrial Transition Authority within the Prime Minister's Office, directly accountable to the PM and reporting jointly to MOD and MOF. The authority owns the 350 billion NIS implementation plan, the FMF phaseout transition, and the export expansion.

Rationale: The 350 billion NIS plan and the FMF phaseout are too consequential to leave to inter-ministerial coordination. Korea ran its industrial transformation through the ADD with a clear single point of authority. Israel should match the model.

2. Codify the Defense Bond Mechanism.

Action: The Knesset passes a Defense Bond Law authorizing 250 billion NIS in dedicated defense bonds over the decade, ring-fenced from general debt issuance. Bonds are tax-advantaged for Israeli pension funds and the Citizens Fund.

Rationale: The 350 billion NIS commitment requires a credible funding instrument. General debt issuance compounds the existing fiscal stress. Defense bonds isolate the fiscal impact and create domestic political ownership.

3. Build a Defense Export Credit Agency.

Action: Establish an Israel Defense Export Credit Agency (IDECA) with US\$5 billion initial capitalization, modeled on the Export-Import Bank of Korea. IDECA finances buyer-nation procurement of Israeli defense systems.

Rationale: Korean defense exports scaled because Korean industry could offer financing on a par with U.S., French, and German competitors. Israeli industry currently lacks an equivalent. The 350 billion NIS plan compounds the need: domestic production capacity will exceed domestic demand, requiring sustained export channels.

4. Negotiate a Joint Advanced Technology Envelope.

Action: The Ministry of Defense, working through the Israel Embassy in Washington and the IMOD-MAFAT structure, proposes to the Pentagon a US\$1 billion per year Joint Advanced Technology Envelope. The envelope funds dual-use technology co-development on AI, autonomy, directed energy, hypersonics, and quantum sensing.

Rationale: A successor framework needs replacement content for declining FMF. Joint advanced technology fits both governments' priorities. The envelope flows through DARPA, the U.S. Defense Innovation Unit, and MAFAT, using the BIRD model at 50 times scale.

5. Reform IMoD Procurement: Build an Israeli Defense Innovation Unit.

Action: Within 18 months of the new MOU signature, the Israeli Ministry of Defense establishes a procurement office with statutory authority to bypass the standard MAFAT and SIBAT cycles for time-sensitive contracts under US\$100 million. The office models on the U.S. Defense Innovation Unit (DIU) playbook and applies the Other Transaction Authority equivalent under Israeli procurement law. Critically, no fewer than 5 to 10 percent of the 350 billion NIS envelope is legally ring-fenced for companies under 10 years old.⁸³

Rationale: The 350 billion NIS investment fails if it flows exclusively to IAI, Elbit, and Rafael. The bureaucratic moat around the existing primes (multi-year unpaid pilot programs, opaque procurement criteria, default to incumbent suppliers) excludes the agile innovators that produced Iron Dome's original software stack, Smart Shooter's automated target acquisition, UVision's loitering munitions, and the entire Israeli C-UAS ecosystem. Without procurement reform, the plan calcifies the existing oligopoly, suppresses new venture formation, and eliminates the dual-use spillover described in Section V. The Anduril precedent in the United States, where a sub-decade-old company captured multi-billion-dollar contracts through DIU-style fast-track procurement, is the proof of concept.

Performance metric. Within 36 months: at least 50 contracts awarded to companies under 10 years old, totaling at least US\$5 billion in cumulative value, with average procurement cycle time below 12 months.

6. Pursue NATO Partnership Plus Status.

Action: Israel formally proposes a NATO Partnership Plus framework, modeled on the existing Major Non-NATO Ally designation but adapted for the NATO institutional architecture. The proposal includes structured participation in NATO Centers of Excellence, observer status at NATO Defense Ministerial meetings on relevant topics, and integrated procurement participation in NATO Support and Procurement Agency frameworks.

Rationale: Full NATO membership remains structurally unavailable. A Partnership Plus status creates structural depth without triggering Article 5 complications.

7. Front-Load Capacity Investment Within the 350 Billion NIS Envelope.

Action: Allocate the first 60 billion NIS of the plan (approximately three years of capital deployment) to factory capacity, raw material stockpiles, and workforce development rather than to advanced platform R&D. Capacity precedes capability.

Rationale: The procurement downside compresses as domestic production capacity expands. Front-loading capacity reduces the period during which export contracts and domestic stockpiling compete on a fixed production base.

8. Codify the Super-Sparta Operating Concept Without the Branding.

Action: The IDF General Staff and the Ministry of Defense codify the operational concept of permanent mobilization that Netanyahu has described in colloquial terms as Super-Sparta, but do so under a less politically loaded name. The concept includes short-term reserve frameworks, attritable system doctrine,

layered defense readiness, and rapid domestic replenishment. The Nagel Committee's reserve reform recommendations provide the foundation.⁸⁴

Rationale: The Super-Sparta framing as articulated publicly creates political vulnerabilities both inside Israel and with Western allies. The underlying operational logic, however, fits the regional threat environment. The discipline is to extract the operational substance from the rhetorical packaging.

For the Government of the United States

1. Negotiate the Successor Framework Now.

Action: The State Department and Department of Defense, working with the National Security Council, open formal negotiations on the successor framework in May 2026 as the *Calcalist* report indicates. Target signature by end of FY2027 to provide industry with two-year visibility before MOU expiration.

Rationale: Industry planning cycles require two-year visibility. Late negotiation creates investment uncertainty for U.S. primes and Israeli industrial planners alike.

2. Expand the Missile Defense Allocation.

Action: Congress increases the missile defense co-development allocation from US\$500 million per year to US\$1 billion per year, with structured carve-outs for Iron Beam, Arrow 4, and counter-hypersonic capability.

Rationale: Missile defense funding sits outside FMF, serves direct U.S. interests through Iron Dome and David's Sling integration, and produces capability the U.S. military increasingly fields itself. This is the most easily defensible expansion of the relationship.

3. Authorize the Joint Advanced Technology Envelope.

Action: The FY2027 NDAA authorizes a Joint Advanced Technology Envelope at US\$1 billion per year, executed through DARPA, DIU, and a new Joint Innovation Office at MAFAT.

Rationale: The envelope replaces declining FMF with capability-focused investment. It serves both economies and aligns with the broader U.S. push to accelerate dual-use innovation procurement.

4. Reform ITAR for Tier-One Allies.

Action: The State Department, working through the Directorate of Defense Trade Controls, establishes a Tier-One Ally Expedited Review process for Israel, the United Kingdom, and Australia that compresses ITAR licensing from current 60–180-day timelines to 30-day commitments. Reciprocal arrangements with Israeli DECA. Target: rule promulgated within 12 months of the new MOU signature. Performance metric: 90 percent of Tier-One license applications closed within 30 days by the end of year two.

Rationale: ITAR friction increasingly impedes the alliances ITAR was designed to support. The U.K. and Australia have negotiated Tier-One status under the AUKUS framework. Israel deserves equivalent treatment.

5. Establish a DECA-ITAR Alignment Roadmap.

Action: Within 24 months of the new MOU, U.S. and Israeli regulators publish a joint roadmap aligning U.S. ITAR enforcement, the new Israeli Dual-Use Export Control Bill (introduced for comment in March 2026), and the U.S. Export Administration Regulations. The roadmap addresses third-country re-transfer review, brokering registration, deemed-export rules for Israeli employees of U.S.-controlled entities, and reciprocal recognition of license holders. Target: working draft within 12 months; bilateral signature within 24 months.⁸⁵

Rationale: The two regulatory systems currently overlap inconsistently. Companies operating in both jurisdictions face license risk on the same activity from both regulators. Alignment reduces compliance friction without weakening either national security framework.

6. Reframe the Qualitative Military Edge Statutory Obligation.

Action: Congress, working with the Department of State and Department of Defense, codifies a successor framework for fulfilling the U.S. statutory obligation to maintain Israel's Qualitative Military Edge (QME). The current QME requirement, established by the Naval Vessel Transfer Act of 2008 (codified at 22 U.S.C. § 2776(c)) and reaffirmed in the Iran Threat Reduction and Syria Human Rights Act of 2012, was implicitly satisfied through FMF-financed Israeli access to advanced U.S. systems. The successor framework shifts QME satisfaction from financial subsidy to preferential technology release: Israel retains priority access on a paid basis to Tier-One platforms and capabilities denied to other Middle Eastern partners, including NGAD components, advanced AI tools, hypersonic technology, and quantum sensing.⁸⁶

Rationale: QME is law, not policy preference. Without a clear successor mechanism, FMF reduction creates a statutory compliance gap. The preferential technology release architecture satisfies the legal requirement, preserves the strategic intent of QME, and aligns with the post-aid commercial procurement model. Israel pays full price for the access. The U.S. retains the leverage of the technology gate.

7. Fix the U.S.-Israel Free Trade Agreement Antidumping Carve-Out.

Action: Congress amends the Tariff Act of 1930 cumulation provision to exclude imports from Free Trade Agreement partners, including Israel, from cumulation with non-FTA countries in International Trade Commission injury determinations. Target: legislative cycle aligned to the FY2027 trade authorization. The Finkelstein Metals brass-rod case in 2024, which threatened Iron Dome supply chain resilience because Israeli imports were cumulated with Brazilian, Indian, Mexican, South African, and South Korean imports, illustrates the technical defect.⁸⁷

Rationale: The current cumulation rule creates structural exposure for Israeli component suppliers to U.S. defense systems. The fix is a narrow technical amendment that aligns the FTA with its intent. The amendment costs the U.S. Treasury approximately zero and removes a real friction point in the post-aid industrial relationship.

For the Pro-Israel Lobby and Allied Institutions

For four decades, the cornerstone of the U.S. pro-Israel lobby's legislative agenda has been the annual FMF appropriation. The taper requires those institutions to redirect their political capital toward a different set

of legislative and regulatory targets. The institutional pivot is essential. Without it, the post-aid architecture inherits political infrastructure designed for the wrong era.

1. Redirect Lobbying Capital to Regulatory Alignment.

Action: AIPAC, the American Jewish Committee, the Israel Allies Foundation, J Street (in its narrower regulatory advocacy), and equivalent organizations shift legislative focus from FMF appropriation to four regulatory targets: ITAR Tier-One Ally status (Section X recommendation 4), the DECA-ITAR alignment roadmap (recommendation 5), the U.S.-Israel FTA antidumping carve-out fix (recommendation 7), and the QME statutory reframing (recommendation 6).

Rationale: The annual FMF fight is reactive, repetitive, and politically vulnerable. The regulatory targets above are durable, technical, and produce structural alliance benefits that compound over time. The pivot redirects political capital toward higher-leverage activity.

2. Build Coalitions for U.S. Procurement of Israeli Systems.

Action: Lobbying organizations support U.S. Department of Defense procurement of Israeli-designed systems through congressional appropriations advocacy, particularly on counter-UAS, autonomous systems, and active protection. The model is the existing congressional support for Iron Dome batteries for U.S. forces. The expansion is to Trophy expansion programs, Iron Fist on additional U.S. platforms, and the next generation of Israeli-designed loitering munitions.

Rationale: U.S. procurement of Israeli technology benefits both economies, supports U.S. servicemembers, and reinforces the alliance through industrial integration rather than financial subsidy. The political coalition that historically supported FMF can be redirected to support DoD procurement of Israeli systems with marginal incremental effort.

3. Defend the Joint Advanced Technology Envelope.

Action: Lobbying organizations protect the new joint R&D envelope (Section X recommendation 3) against budget cuts. The envelope replaces declining FMF in the bilateral architecture. Without it, the post-aid relationship loses its capability-development core. With it, the relationship anchors on shared innovation.

Rationale: The envelope sits inside the Department of Defense budget rather than the State Department foreign assistance budget. The political dynamics differ. The lobbying institutions that operated in the foreign assistance space must develop comparable expertise in DoD authorization and appropriation cycles.

For the IDF and Operational Commands

1. Operate Under Constrained Resupply Doctrine.

Action: Build IDF doctrine and training around constrained resupply scenarios. Train commanders to allocate scarce interceptors and munitions across competing tactical needs. Wargame the wartime allocation decisions that the Dimona-Arad case forced into the open.

Rationale: The procurement downside is operational, not just industrial. Tactical commanders must possess the analytic frameworks to make allocation choices when stockpiles compress. The framework does not exist today in formalized form.

2. Emphasize Attributable Systems and Layered Defense.

Action: Shift force structure investment toward attributable and rapidly replaceable systems (loitering munitions, small drones, expendable counter-UAS), and away from exquisite single-platform solutions. Layer defense rather than rely on point-defense platforms with single-system performance dependence.

Rationale: Attributable systems carry lower replacement costs and shorter production lead times. Layered defense reduces the cost of any single-system depletion. Both characteristics reduce the operational impact of the procurement downside.

3. Maintain Qualitative Edge Through Selective High-End Imports.

Action: Maintain the F-35I, F-15IA, KC-46, and CH-53K procurement programs even as FMF declines. These platforms produce capability that Israel cannot domestically replicate within the 350 billion NIS envelope timeline. Pay for them directly from the Israeli treasury.

Rationale: The 350 billion NIS plan does not eliminate the need for selective U.S. platform purchases. It changes the funding source. Mishandling this distinction risks degrading the qualitative military edge in the same period when Iran rebuilds capability.

4. Sustain and Expand the Joint Exercise Program.

Action: Increase the frequency and scope of joint U.S.-Israeli exercises across the Juniper exercise series (Juniper Cobra, Juniper Oak, and any successor exercises), the air-defense interoperability drills with CENTCOM, the multilateral Red Flag rotations, and the new joint counter-drone training in Romania and Cyprus.⁸⁸

Rationale: Without the financial tether of FMF, operational alignment requires deliberate military-to-military investment. Joint exercises produce the doctrinal interoperability that the previous architecture took for granted. They also provide a politically robust signal of alliance continuity that survives changes in financial flow.

For Israeli Defense Companies

1. Open or Expand U.S. Subsidiaries.

Action: Each Israeli prime ensures it has a fully capitalized U.S. subsidiary with U.S. citizen executives, U.S. board members, and U.S. manufacturing footprint. The R2S model in Camden, Arkansas, sets the template.

Rationale: Post-FMF U.S. procurement requires U.S. industrial presence. Subsidiaries also reduce ITAR friction on technology developed inside U.S. borders.

2. Establish or Expand European Subsidiaries.

Action: Each Israeli prime establishes or expands EU subsidiaries to participate in EDF and PESCO. Likely jurisdictions: Italy, Germany, Greece, and the Netherlands.

Rationale: EU defense funding cycles are accelerating post-Ukraine. Subsidiary structures unlock access. The cost of compliance is recovered within two to three program awards.

3. Develop Defense-Adjacent Service Lines.

Action: Each Israeli prime extends into defense-adjacent services: training, simulation, integration, and lifecycle support. These service lines carry higher margins than equipment sales and create recurring revenue.

Rationale: Equipment sales produce one-time revenue spikes. Service contracts produce recurring multi-year revenue. The mix matters for industrial stability during the phaseout transition.

For U.S. Defense Companies

1. Accelerate Joint Ventures with Israeli Industry.

Action: U.S. primes proactively seek joint venture and licensing arrangements with Israeli industry on capabilities the U.S. military increasingly needs (active protection, counter-UAS, electronic warfare, loitering munitions).

Rationale: Israeli industry has produced rapid-iteration capability that U.S. primes cannot match without partnership. The R2S, Iron Fist on GD-OTS, and Spike NLOS on Lockheed models all demonstrate the structure.

2. Hedge Against the Israeli Procurement Volume Decline.

Action: U.S. primes that depend on Israeli FMF orders (Lockheed F-35, Boeing F-15, RTX, GD) develop substitute order pipelines from European customers funded by Sky Shield and EDF. This is already happening on most of these companies' books.

Rationale: A managed decline in Israeli FMF orders is the most likely scenario. U.S. primes that build European substitute pipelines absorb the decline without margin pressure.

For Investors

1. Capital Allocation to Israeli Defense Deep-Tech.

Action: Investors with American Dynamism or dual-use infrastructure mandates allocate 10 to 20 percent of capacity to Israeli defense deep-tech ventures. Multiple channels exist, including direct fund commitments, dedicated Israeli defense-tech vehicles, and the existing Israel Innovation Authority incubator system.

Rationale: The 350 billion NIS commitment creates a sustained domestic procurement pull. The export expansion creates international growth optionality. The combination is attractive on a 7-to-10-year venture timeline.

2. Build U.S.-Israel Dual-Headquarter Structures.

Action: New ventures structure with parallel U.S. (Delaware C-corp) and Israeli (limited company) entities from inception. The U.S. entity owns the U.S. customer relationship and the U.S. workforce. The Israeli entity owns the IP, the R&D workforce, and the Israeli customer relationship.

Rationale: Single-jurisdiction structures fail under the post-FMF reality. Dual-headquarter structures unlock both domestic procurement pulls.

3. Underwrite Defense Export Financing.

Action: Sovereign wealth funds, family offices, and institutional investors provide credit to IDECA-equivalent structures or directly to buyer-nation procurement of Israeli defense systems.

Rationale: Defense export finance is structurally underprovided in Israel. Filling the gap is both commercially attractive and strategically valuable.

Implementation Examples

Three case studies make the abstract recommendations concrete. The first two are real. The third is a representative model for the new generation of Israeli defense-tech ventures structured around the post-aid environment.

Case Study 1: Elbit America

Elbit Systems established Elbit Systems of America, headquartered in Fort Worth, Texas, as a fully U.S.-incorporated subsidiary. Through a sequence of acquisitions, including the 2019 purchase of Harris Night Vision for US\$350 million and the 2020 purchase of Sparton Corporation, Elbit America built a U.S. defense industrial footprint with U.S. citizen executives, U.S. board governance, and U.S. manufacturing facilities.

The investment paid off in the Iron Fist active protection program. The U.S. Army selected Iron Fist for the Bradley M2A4 in 2024 through prime contractor GD-OTS. The follow-on contract in January 2026 added US\$228 million over three years. Iron Fist is now in its third U.S. Army selection. The system is manufactured by Elbit America at U.S. facilities. The flow of revenue runs from the U.S. Army to GD-OTS to Elbit America, not from the U.S. Army to Elbit Israel via FMF. The arrangement is structurally insulated from FMF phaseout.

The Elbit America model demonstrates the post-aid path: deep U.S. industrial presence, U.S. governance compliance for CFIUS clearance, and direct competition for U.S. Department of Defense procurement on quality and cost grounds. The model is replicable. Rafael Defense Systems Ltd, IAI, and emerging Israeli defense-tech companies should follow it.⁸⁹

Case Study 2: R2S Camden, Arkansas

Rafael Advanced Defense Systems and Raytheon Technologies formed the R2S joint venture in 2020 specifically to manufacture Iron Dome and Tamir interceptors in the United States. The joint venture's Camden, Arkansas, facility opened in November 2025 with an initial US\$1.25 billion Tamir interceptor order from the U.S. government and the Israeli Ministry of Defense.

The Camden plant solves multiple problems simultaneously. It satisfies Buy American Act requirements for U.S. military procurement. It distributes interceptor production geographically, reducing single-point-of-failure risk that the October 7 surge exposed. It generates U.S. jobs in a defense-friendly state, building congressional support that survives administration changes. It enables both U.S. and Israeli orders to flow through the same production line, with output allocated by contract rather than by national origin.

The R2S model is the highest-value template for the post-aid era. It converts what would otherwise be a zero-sum competition between U.S. and Israeli industrial bases into a positive-sum partnership. Any Israeli system that the U.S. military procures should run through an R2S-equivalent structure. The 350 billion NIS plan should explicitly target R2S-equivalent joint ventures as production capacity expands.⁹⁰

Case Study 3: A Representative Post-Aid Defense-Tech Venture

Consider a counter-UAS startup spun out of an IDF unit alumni network in late 2026. The company develops a software-defined radar and effector for swarm interception. The capability is validated through battlefield use in 2026 and 2027 against Hezbollah and Hamas drone employments.

The structural choices the company makes from inception determine whether it captures the post-aid market opportunity or fails inside the legacy constraint set.

- Dual entity structure. The company incorporates a Delaware C-corp simultaneously with an Israeli limited company. The Israeli entity owns the core IP, the R&D workforce, and the Israeli MOD relationship. The Delaware entity owns the U.S. customer relationship, the U.S. workforce, and the U.S. investor cap table. Joint board governance ensures alignment.
- Capital from both ecosystems. Series A from a syndicate that includes an American Dynamism fund, an Israeli defense-focused venture capital firm, and one of the established Israel Innovation Authority incubator pools. The cap table balances U.S. and Israeli ownership inside CFIUS-friendly thresholds.
- Customer pipeline from both governments. The Israeli MOD funds initial deployment as part of the 350 billion NIS domestic pull. The U.S. Department of Defense procures through the Defense Innovation Unit's Replicator initiative or through a U.S. prime joint venture. Sales are diversified across Greece, India, the United Arab Emirates, and Japan.
- Production split for resilience and political balance. Software development in Israel. Hardware manufacturing split between an Israeli facility (serving the Israeli MOD and Indian markets) and a U.S. facility (serving DoD and NATO partners). The split satisfies Buy American requirements, supports R2S-style joint manufacturing claims, and reduces single-point-of-failure risk.
- Export discipline. Crisis clauses in every export contract from inception. Strategic stockpile thresholds for the Israeli market built into production allocation algorithms. Single-customer concentration capped at 25 percent.

The company structures itself for the post-aid environment from day one. It does not depend on FMF for its existence, nor would it be advantaged by FMF continuation. This company type is plausibly the dominant defense venture class for the next decade, and the cohort launched in 2026 and 2027 with this architecture should compound across the 2028 to 2038 transition window.

XI. Conclusion

The end of U.S. military aid to Israel will not weaken the alliance. The end of unconditional grant aid does not mean the end of co-development, the end of joint operations, the end of intelligence sharing, or the end of the strategic alignment that has defined the relationship since 1967. It means a transition from a patron-client architecture to a peer alliance.

Israel approaches the transition from a position of strength. Defense exports at US\$14.79 billion in 2024. A combined prime backlog above US\$65 billion. Three battle-tested missile defense systems in active production. A dual-use technology ecosystem that produces both export winners and military capability. A 350 billion NIS domestic capital pull commitment over the next decade. A Prime Minister and a Finance Minister and a Defense Minister all aligned on the strategic direction.

The United States approaches the transition with reasons of its own. The defense industrial base operates near full capacity without aid to Israel. The political coalition supporting unconditional grant aid has weakened in both parties. The strategic case for Israel as an indispensable partner remains intact and arguably strengthens through Israeli demonstration of capability, but the financial subsidy serves diminishing marginal U.S. industrial purpose.

Both governments now share the work of architecting a successor framework. The *Calcalist* report on April 26, 2026, signaled that formal negotiations begin next month. The structural elements are visible: a managed glide path from 2028 to 2038, expanded missile defense co-development funding, a new joint advanced technology envelope, partial loan conversion of residual FMF, and continued operational integration through CENTCOM.

Businesses on both sides of the relationship must prepare. Israeli primes need U.S. and European subsidiary infrastructure. U.S. primes need joint venture pipelines into Israeli capability. Investors need dual-jurisdiction structures and defense export finance instruments. The class of new ventures that will dominate the next decade is the one already taking shape: defense and counter-terror deep-tech, building from Israel for global markets, structured to absorb the policy environment as it evolves.

The decade ahead will not be quiet. The Iran threat persists, the European rearmament cycle continues, the Indo-Pacific competition compounds, and the Abraham Accords expansion remains unfinished. In each of these theaters, Israeli capability matters and grows. The question of U.S. aid recedes as the question of joint capability advances.

This is not a call to end the U.S.-Israel security relationship. It is a recognition of Israel's strength. Asking it to fund its own defense is not abandonment. Jeremy Ben-Ami, J Street, April 2026.

We have come of age. We have developed incredible capacities. We want to be as independent as possible. Prime Minister Benjamin Netanyahu, Mar-a-Lago, January 2026.

Both statements describe the same outcome. Both are correct. The work begins.

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Appendix A. Timeline: From the Glide Path to 2038

The bilateral aid architecture has evolved through six phase-changes since 1959. The timeline below maps each.

Year	Event
1959	First U.S. economic aid to Israel
1973	Yom Kippur War; supplemental military aid surges
1985	All U.S. aid converts to grant form
1987	Israel granted Major Non-NATO Ally status under the Nunn Amendment
1988	First OSP appropriation: US\$475 million
1995	Israel joins NATO Mediterranean Dialogue
1996	Netanyahu addresses Joint Session of Congress; proposes economic aid phase-out
1999	First MOU (Glide Path Agreement): US\$26.7 billion over ten years
2007	Bush MOU: US\$30 billion over ten years; OSP at 26.3 percent
2008	All bilateral economic aid (ESF) ends
2010	Israel signs first F-35 LOA
2011	U.S. begins dedicated Iron Dome funding outside FMF
2016	Obama-Netanyahu MOU signed: US\$38 billion over ten years; OSP phase-out begins
2017	Israel Mission to NATO opens at NATO HQ Brussels
2018	OSP phase-out commences; current MOU effective
2019	Elbit acquires Harris Night Vision; Trophy fielded on Abrams
2020	Israel transferred from EUCOM to CENTCOM; R2S joint venture established
2023	September: Germany signs Arrow 3 contract; October 7: Hamas attack triggers multi-front war
2024	April: U.S. supplemental of US\$8.7 billion; October: THAAD battery deployed to Israel
2025	January: Nagel Committee Report; June: Operation Rising Lion against Iran; November: Camden, Arkansas, R2S plant opens; December: Netanyahu announces 350 billion NIS plan
2026	January: Mar-a-Lago confirmation of FMF taper; February: Operation Epic Fury continues; April: <i>Calcalist</i> reports 2038 phaseout negotiations
2028	Current MOU expires; OSP terminates
2029	New MOU effective
2038	FMF target zero (<i>Calcalist</i> scenario)

Appendix B. Glossary

Acronyms and short forms used throughout the paper.

Term	Definition
AECA	Arms Export Control Act of 1976
APS	Active Protection System
AUKUS	Australia-United Kingdom-United States security partnership
BIRD	Israel-U.S. Binational Industrial Research and Development Foundation
BSF	Israel-U.S. Binational Science Foundation
C-UAS	Counter-Unmanned Aerial Systems
CENTCOM	U.S. Central Command
CFIUS	Committee on Foreign Investment in the United States
DARPA	Defense Advanced Research Projects Agency
DCSA	U.S. Defense Counterintelligence and Security Agency
DECA	Israeli Defense Export Control Agency
DDR&D / MAFAT	Israeli Directorate of Defense Research and Development
DSCA	U.S. Defense Security Cooperation Agency
EAR	U.S. Export Administration Regulations
EDA	Excess Defense Articles (also: European Defence Agency)
EDF	European Defence Fund
EUCOM	U.S. European Command
EW	Electronic Warfare
FIRRMA	Foreign Investment Risk Review Modernization Act of 2018
FMF	U.S. Foreign Military Financing program
FMS	U.S. Foreign Military Sales program
G2G / B2G / B2B	Government-to-Government / Business-to-Government / Business-to-Business
IDF	Israel Defense Forces
IDECA	Proposed Israel Defense Export Credit Agency (this paper's recommendation)
IIA	Israel Innovation Authority

Term	Definition
IMDO	Israel Missile Defense Organization
IMET	International Military Education and Training program
IMOD	Israel Ministry of Defense
INSS	Institute for National Security Studies (Tel Aviv)
ITAR	International Traffic in Arms Regulations
MDA	U.S. Missile Defense Agency
MNNA	Major Non-NATO Ally
MOU	Memorandum of Understanding
NDAA	U.S. National Defense Authorization Act
OSP	Off-Shore Procurement
PDA	Presidential Drawdown Authority
PESCO	Permanent Structured Cooperation (EU)
PGM	Precision-Guided Munition
QME	Qualitative Military Edge
R2S	Rafael-Raytheon joint venture for Iron Dome / Tamir interceptors
SIBAT	International Defense Cooperation Directorate, Israel MOD
THAAD	Terminal High Altitude Area Defense
USAI	Ukraine Security Assistance Initiative

Appendix C. Edge-Case Scenarios

Three edge cases bracket the realistic stress range for the architecture proposed in this paper. Each is plausible. Each would require specific adjustment.

Edge Case 1: Major Iran-Hezbollah Escalation in 2027

A coordinated Iranian-Hezbollah escalation that opens a sustained northern front through 2027 would compress the Israeli industrial transition timeline. Reserve mobilization beyond 2025-2026 levels would draw industrial workforce out of production at the precise moment the 350 billion NIS plan needs maximum throughput. The fiscal trajectory would shift toward the prolonged conflict case in Section V's modeling: debt-to-GDP breaches 80 percent by 2030, the Bank of Israel warning threshold.

Adjustment: U.S. emergency supplementals continue at supplemental rates through 2027. The 2028 transition still occurs but on a flatter glide path: FMF reduces from US\$3.3 billion to US\$2.5 billion in 2029 and 2030 rather than the linear US\$330 million per year reduction. The procurement downside risk matrix in Section VI tilts toward the High-High and Severe-Severe quadrants. Mitigation requires accelerated R2S-style joint manufacturing and aggressive inventory pre-positioning at U.S. and European bases.

Edge Case 2: Faster European Strategic Autonomy

If the European Defence Fund and PESCO accelerate beyond current trajectory, with EU member states centralizing defense procurement above €200 billion annually, Israeli industry faces both opportunity and pressure. Opportunity: subsidiarized Israeli operations in Italy, Germany, Greece, and Poland capture share of the larger envelope. Pressure: European primes consolidate to compete, raising the bar for non-EU competitors.

Adjustment: Israel must accelerate the European subsidiarization recommended in Section X. Israeli defense companies must commit to physical EU manufacturing presence beyond what current strategy frameworks contemplate. The trade-off: more European industrial integration may reduce Israeli technology repatriation. The Italian DRS ownership of Trophy production is a tolerable model. The U.K. or French equivalent would not be.

Edge Case 3: U.S. Domestic Political Acceleration

If U.S. Congress moves under the Graham-style accelerated phaseout legislation, the FMF could terminate before the 2028 MOU expiration. Senator Graham's proposal in January 2026 framed the phaseout as a savings to the U.S. Treasury. Combined with continued declining favorability among under-35 voters, the political pressure could compress the 2028-2038 glide path into 2028-2032 or even an immediate post-MOU termination.

Adjustment: Israel pre-positions the 350 billion NIS plan execution. Capacity front-loading becomes more urgent. The Joint Advanced Technology Envelope must be in place by FY2027 to absorb the technology-cooperation demand that the FMF phaseout would otherwise route to programmatic confusion. Israeli

industry must pull European subsidiarization forward by 12 to 18 months. The strategic logic of this paper remains valid but the timeline compresses.

Common Threads

All three edge cases share three operational responses: front-loaded capacity investment, accelerated joint venture formation, and tightened export discipline. The base-case scenario in Section IX assumes managed glide. The edge cases assume the glide is interrupted. The same recommendations work in both. The recommendations are robust to the timeline. They are not robust to inaction.

Endnotes

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