

# The Disappearing Aid Check: The Future of US–Israel Defense Support

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# Executive Summary

The United States and Israel are now approaching the renegotiation of their 10-year defense Memorandum of Understanding, or MOU. Israeli officials have said they want to phase out US military grant aid — a position that sounds like a step toward ending US military assistance to Israel. It is not.

What top Israeli officials — including Prime Minister Benjamin Netanyahu — are quietly backing is not a reduction in American support, but a reorganization of it: shifting billions in resources from State Department-administered foreign aid grants into general Pentagon procurement accounts, industrial partnerships, and sustainment pipelines. The shift will strip away the political and diplomatic oversight mechanisms that make the relationship publicly accountable, moving it from a visible annual aid vote into the opaque machinery of defense acquisition, where oversight is limited and political accountability is minimal. The result would be a defense relationship that is simultaneously deeper and less transparent.

Since fiscal year 2019, the United States has provided \$3.3 billion per year in Foreign Military Financing, or FMF, grants to Israel, plus an additional \$500 million per year for missile defense cooperation. About 25 percent of this FMF grant money has gone toward offshore procurement, or OSP, funds allocated to Israel to spend domestically on its own defense industry and military equipment. Effectively, it is a US subsidy for Israel's military industrial complex.

This OSP precedent is slated to end with the expiration of the current MOU. This has fueled Israeli proposals to phase out FMF grants altogether, replacing them with a relationship centered on US-Israeli defense integration. This would embed Israeli firms and Israeli-origin intellectual property inside larger Pentagon programs and production. Unlike the foreign assistance process, the military procurement framework would not be subject to the political scrutiny of Congress and the State Department, but would be evaluated on bureaucratic criteria such as cost, readiness, and capability. This shift would likely be justified by reframing US support not as a handout to Israel, but as an investment in American military readiness, industrial capacity, and jobs.

At a time when the US-Israel relationship should be scrutinized in light of Israeli actions that run counter to US interests, such a structural shift would be counterproductive. To avoid this outcome, any procurement-centered relationship should meet these three basic requirements:

- Program-level transparency regarding the existence, scale, cost, and rationale of each procurement program.
- Cross-committee coordination in Congress to ensure visibility and accountability to non-military congressional oversight committees.
- Clear metrics to assess whether Israeli participation in Pentagon programs serves US defense requirements.

# The current deal — and why it is running out of road

This brief explains what the shift in US aid for Israel means: where the money actually goes, who controls it, who benefits, and why the standard debate about ending aid misses the consequential change.<sup>1</sup>

Since 2016, US support for Israel has been governed by a 10-year Memorandum of Understanding, or MOU, that runs from fiscal year 2019 through fiscal year 2028. The headline numbers are well-known: \$3.3 billion per year in Foreign Military Financing, or FMF, grants, plus \$500 million per year for cooperative missile defense, for a combined total of \$38 billion over the decade.<sup>2</sup> These figures have anchored the public debate — supporters cite them as proof of commitment; critics cite them as evidence of unconditional largesse.<sup>3</sup>

But the MOU contains a provision that has received far less attention and will force a fundamental rethinking of the relationship's architecture, regardless of what either government might prefer. Under the current agreement, a portion of the FMF

grant — historically about 25 percent — was available for offshore procurement, meaning Israel could spend it on Israeli-made equipment within its own defense industry. That offshore procurement, or OSP, privilege was scheduled to phase down to zero by FY2028.<sup>4</sup>

This is not a minor accounting adjustment. OSP was the mechanism by which US grant money was converted into predictable domestic demand for Israeli defense firms — sustaining production lines, supporting design capabilities, and providing the Israeli defense sector with a stable revenue floor that did not depend entirely on export sales or the Israeli government's budget. At roughly \$825 million per year in its opening years, the OSP stream was, for practical purposes, an industrial subsidy built into what looked like a foreign aid grant.<sup>5</sup>

When OSP goes to zero, the remaining FMF grant will remain large but will become almost entirely a tool for buying American-made weapons and systems.

- 1 This analysis draws on publicly available sources and open-source reporting on US–Israel defense cooperation. Dollar figures are drawn from official public sources. Forward-looking financial ranges are illustrative of structural dynamics, not forecasts.
- 2 “Fact Sheet: Memorandum of Understanding Reached with Israel,” The White House, Sept. 14, 2016, <https://obamawhitehouse.archives.gov/the-press-office/2016/09/14/fact-sheet-memorandum-understanding-reached-israel>. See also Jeremy Sharp, “US Foreign Aid to Israel: Overview and Developments since October 7, 2023,” Congressional Research Service, updated 2025, <https://www.congress.gov/crs-product/RL33222>.
- 3 The 2016 MOU was the product of nearly 10 months of tense negotiations, complicated by the strained personal relationship between President Obama and Netanyahu — exacerbated by Netanyahu's March 2015 address to a joint session of Congress over Obama administration objections, which prompted a prolonged suspension of MOU talks — and by late-stage objections from Senator Lindsey Graham, Republican of South Carolina, who called for a more generous package. The agreement was signed not by the two leaders but by US National Security Adviser Susan Rice and Israeli Acting National Security Council Chief Jacob Nagel. See Nicole Gaouette, “US, Israel Reach Record Military Aid Deal,” CNN, Sept. 13, 2016, <https://www.cnn.com/2016/09/13/politics/us-israel-military-aid-package-mou>; Zaki Shalom, “Strategic Aspects of the 2016 US–Israeli Memorandum of Understanding,” *Israel Journal of Foreign Affairs*, Vol. 10, No. 3 (2016), <https://www.tandfonline.com/doi/full/10.1080/23739770.2016.1269271>; Udi Evental and Sarit Zehavi, “A Review of the Negotiations on the 2016 US–Israel MOU,” Institute for National Security Studies, Memorandum No. 202, 2020, [https://www.inss.org.il/wp-content/uploads/2020/08/Memo202\\_e-63-70.pdf](https://www.inss.org.il/wp-content/uploads/2020/08/Memo202_e-63-70.pdf).
- 4 The 2016 MOU stipulated a gradual reduction of the offshore procurement share from approximately 26.3 percent of the annual \$3.3 billion FMF grant, phased to zero by FY2028. See Sharp, “US Foreign Aid to Israel.” See also Michael Singh, “Israel's New MOU: The Money and the Message,” Washington Institute for Near East Policy, September 2016, <https://www.washingtoninstitute.org/policy-analysis/israels-new-mou-money-and-message>.
- 5 Based on an OSP share of approximately 26.3 percent of the \$3.3 billion annual FMF grant (\$867 million). The \$825 million figure used in the text represents a rounded estimate; the CRS report, “US Foreign Aid to Israel,” gives approximately 26.3 percent. OSP was originally created after Israel canceled development of the Lavi fighter jet in 1987 as compensation for the resulting economic disruption to its defense sector.

For Israel's defense industry, the grant continues to flow, but the domestic economic benefit largely disappears. The grant becomes a subsidy for US primes rather than Israeli ones.<sup>6</sup>

A quiet premise sits behind the post-2028 MOU chatter: the US political coalition sustaining the US–Israel security relationship looks less automatic than it did in the decades after 1967, and key constituencies read the trend lines as unfavorable. Public opinion has been moving, not only since October 7 but for several years. Gallup's long-term trend shows the gap in Americans' sympathies narrowing steadily from 2019 onward; by early 2026, Israelis were no longer viewed more sympathetically than Palestinians in the aggregate — a change that would have been difficult to imagine in the 2000s.<sup>7</sup> Within the American Jewish community, support for Israel remains strong overall, but the age gradient is real and increasingly salient to political strategists.

Pew's April 2024 analysis of US Jewish views during the Israel– Hamas war found younger Jews expressing less favorable attitudes toward Israelis and more favorable views of Palestinians than do older Jews, significant differences because younger cohorts are typically more liberal and more willing to interpret Israeli politics through the lens of anti-ethnonationalism, minority rights, and anti-

occupation activism. This cohort shift interacts with a broader partisan drift, whereby younger Americans and Democrats have been more likely than older Americans and Republicans to express skepticism about Israel's conduct in Gaza and to describe US policy as too permissive.<sup>8</sup>

Those long-run pressures have immediate political consequences in an election cycle shaped by war. In the current Iran conflict, the notion that Israel dragged or manipulated the United States into war has re-emerged as a line of attack across the political spectrum, not always from major candidates, but from prominent voices close enough to the partisan mainstream to make the trope politically contagious (and, in some cases, to blur into antisemitic insinuation). Even though senior officials rebut the claim, the fact that it has become a live controversy underscores an underlying problem: the aid vote is a high-salience target for critics in a way that procurement and industrial-base spending usually is not.<sup>9</sup>

This is the political setting in which the Israeli 20-year MOU idea briefly surfaced in late 2025, a trial balloon testing the viability of an attempt to lock in a favorable instrument against anticipated political shocks, and then rapidly receded from public discussion, as subsequent reporting shifted

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- 6 The Obama administration justified the phase-out on the grounds that Israel's defense industry — with annual exports of approximately \$5.7 billion and ranked among the world's top five arms exporters — was mature enough to sustain itself without the domestic subsidy, and that FMF dollars should instead be spent in the United States to support American manufacturing jobs. The White House "Fact Sheet" stated the change would mean "Israel will spend more funding on advanced military capabilities that only the United States can provide." Israel resisted fiercely in negotiations: Yossi Weiss, CEO of Israel Aerospace Industries, called the OSP removal "dramatic," and some Israeli executives forecast that the new terms "would lead to the demise of Israel's defense sector." OSP was phased down on a specific schedule — from \$815.3 million in FY2019 declining to \$775.3 million in the first five years, then a steeper descent to zero by FY2028 — to give Israeli industry time to adjust. See Josh Rogin, "Obama Wants to Stop Subsidizing Israel's Defense Industry," Bloomberg, June 22, 2016, <https://www.bloomberg.com/opinion/articles/2016-06-22/obama-wants-to-stop-subsidizing-israel-s-defense-industry>; Barbara Opall-Rome, "Israel Balks at Obama's New 10-Year Aid Offer," Defense News, July 15, 2016, <https://www.defensenews.com/2016/07/15/israel-balks-at-obamas-new-10-year-aid-offer/>; Dean Shmuel Elmas, "US Military Aid Changes Hit Small Israeli Defense Firms," Globes, 2016, <https://en.globes.co.il/en/article-us-military-aid-changes-hit-small-israeli-defense-firms-1001508262>; Evental and Zehavi, "A Review of the Negotiations."
  - 7 Benedict Vigers, "Israelis No Longer Ahead in Americans' Middle East Sympathies," Gallup, Feb. 27, 2026, [israelis-no-longer-ahead-americans-middle-east-sympathies.aspx](https://www.gallup.com/press-release/2026-02-27/israelis-no-longer-ahead-americans-middle-east-sympathies.aspx).
  - 8 Laura Silver, "Negative Views of Israel, Netanyahu Continue to Rise Among Americans – Especially Young People," Pew Research Center, April 7, 2026, <https://www.pewresearch.org/short-reads/2026/04/07/negative-views-of-israel-netanyahu-continue-to-rise-among-americans-especially-young-people/>.
  - 9 Thomas Beaumont and David Bauder, "Joe Kent's Resignation Over Iran War Reignites Antisemitism Fears and Debate Over Israeli Influence," Associated Press, March 19, 2026, <https://apnews.com/article/7db226dd6d6e4ec6fe538d17e705f0d1>. See also Edward Helmore, "US Counterterrorism Chief Who Resigned Says He Fears Retaliation but Has No Regrets," The Guardian, March 21, 2026, <https://www.theguardian.com/us-news/2026/mar/21/joe-kent-trump-retribution-iran-war>. For an illustration of the rebuttal posture and the fact the trope is now mainstream enough to require rebuttal, see Ryan King, "Trump Has Given Israel's Netanyahu 'the Business,' Mike Waltz Tells 'Pod Force One' Amid Iran War," The New York Post, March 25, 2026, <https://nypost.com/2026/03/25/us-news/trump-has-given-netanyahu-the-business-un-ambassador-mike-waltz-reveals/>.

back to a more conventional 10-year frame. The disappearance is itself revealing. It suggests that the challenge for Israel and its American supporters is not simply negotiating a number, but protecting a commitment whose political base is perceived as narrowing. Re-instrumentation — i.e., moving from visible FMF-coded aid toward Department of

Defense-coded cooperation that can be defended as enhancing US readiness, industrial resilience, and domestic production — should be understood as a way of making the relationship less vulnerable to the kinds of political shocks that now predictably attach to foreign assistance.

## What “ending aid” actually means

Israeli officials, including figures associated with Prime Minister Benjamin Netanyahu, have floated the idea that Israel should declare its intention to phase out US military grant aid in the next MOU.<sup>10</sup> This has been widely reported as a signal of Israeli self-confidence and fiscal strength — a small, wealthy, technologically sophisticated country graduating from dependence on foreign assistance.

The framing is politically effective. It appeals to Israeli nationalists who dislike the stigma of aid. It plays well with American conservatives who support Israel but are skeptical of foreign assistance as a category. And it preempts the traditional left-liberal critique — that US military grants should carry conditions related to Israeli behavior toward Palestinians or its neighbors — by appearing to remove the grant altogether.

But ending aid in this context does not mean ending US financial support for Israel’s military and defense sector. It means changing the institutional form through which that support is delivered. The concept, in effect, is not to reduce support for Israel’s military; it is to shift it from the foreign-operations budget and the State Department’s oversight to the Pentagon’s procurement, research and development, industrial base, and sustainment machinery.

Once that migration is complete, aid in the conventional sense — a grant administered through

foreign-assistance legislation, subject to State Department conditions, and debated annually in foreign-policy terms — will largely disappear. In its place will be a web of procurement contracts, co-production arrangements, licensing deals, and sustainment pipelines that are governed by acquisition law, managed by program offices, and justified in the language of US military readiness and industrial capacity.

Israel is not the only US partner with defense-industrial integration. Many allies participate in co-development, co-production, and supply-chain embedding, and US acquisition rules already accommodate procurement from certain allied sources in defined circumstances. What is unusual in Israel’s case is the bundle — scale plus political institutionalization. The US–Israel relationship is anchored in decade-long MOUs that function as a public covenant, historically including an explicit industrial carve-out (OSP) within FMF and embedded missile defense cooperation as a recurring element of the package.

That bundle is precisely why the post-2028 negotiation is unusually consequential. As OSP goes to zero, Israel loses a privileged domestic-industrial channel inside the aid architecture. If Israel succeeds in replacing that value through structured participation in Defense Department-coded procurement and industrial portfolios — licensing,

10 Herb Keinson, “Benjamin Netanyahu Seeks to End US Military Aid Within 10 Years,” Jerusalem Post, February 2025, <https://www.jpost.com/israel-news/defense-news/article-883141>; “Netanyahu Hopes to ‘Taper’ Israel Off US Military Aid in Next Decade,” NBC News, March 2025, <https://www.nbcnews.com/world/israel/netanyahu-hopes-taper-israel-us-military-aid-decade-rcna253301>; Nava Freiberg, “Israel Looks to Wean Itself Off US Aid, but Breaking Free Could Cost Both Sides,” Times of Israel, Feb. 13, 2026, <https://www.timesofisrael.com/israel-looks-to-wean-itself-off-us-aid-but-breaking-free-could-cost-both-sides/>.

subsystem roles, co-production, and sustainment tails — its integration into US defense production could become deeper and more durable than many peers, even if it looks less special in the narrow sense as the grant label recedes. The qualitative difference is that the relationship is being renegotiated as a large, politically institutionalized shift from visible grants to embedded industrial pathways.<sup>11</sup>

No Israeli term sheet has been made public that explicitly proposes migrating a specified dollar amount from the FMF–State Department aid channel into the Pentagon procurement budget. What is visible, however, is a consistent pattern of Israeli signaling and press reporting that points to a shift in the vehicle of support away from direct financial aid as the politically salient core, and toward a set of partnership instruments, such as joint projects, joint R&D, and other US–Israel defense-industrial collaborations that sit more naturally in Defense Department acquisition and industrial-base channels. In late 2025 and early 2026, reporting

described Israeli exploration of an “America First” framing, including proposals to lengthen the MOU’s term (floated as at least 20 years) and to allocate some resources to joint US–Israel R&D rather than to the classic aid-grant structure.<sup>12</sup>

Israeli officials have also been quoted in ways that are at least directionally explicit about prioritizing “joint projects” over “cash.” Reuters, citing a Financial Times account, reported that Israel was preparing talks for a new 10-year security deal that would shift away from direct financial assistance toward expanded US–Israel defense collaborations, and quoted the outgoing senior Ministry of Defense financial official as saying that “joint projects take priority over cash.”<sup>13</sup> Netanyahu’s own public posture, as reported by *The Economist*, in favor of tapering Israel off US military aid over a decade, helps explain why the rhetorical emphasis is on ending aid even as the practical thrust of the conversation is toward substituting procurement-coded cooperation for grant-coded assistance.<sup>14</sup>

## The new architecture — how money moves in a defense-industrial model

To understand what replaces the grant, it helps to understand how the Pentagon actually spends money on defense cooperation, and why that process looks so different from foreign aid.

### Foreign Military Financing vs. defense procurement

Foreign Military Financing is a grant program administered under the Foreign Assistance Act. It is appropriated by Congress through the foreign-operations budget, overseen by the State Department, and subject to conditions that the secretary of state can impose, modify, or waive. It is explicitly designed as an instrument of foreign policy

11 Sharp, “US Foreign Aid to Israel”; “Fact Sheet,” The White House.

12 Barak Ravid, “Scoop: Israel Seeks 20-Year Military Aid Deal with US with ‘America First’ Tweaks,” *Axios*, Nov. 13, 2025, <https://www.axios.com/2025/11/13/israel-military-aid-us-billions-20-years>; Lazar Berman, “Israel Seeking 20-Year ‘America-First’ Security Agreement with US — Report,” *Times of Israel*, <https://www.timesofisrael.com/israel-seeking-20-year-america-first-security-agreement-with-us-report>.

13 “Israel to Seek New Security Deal with the US, FT Reports,” *Reuters*, Jan. 27, 2026, <https://www.reuters.com/business/aerospace-defense/israel-seek-new-security-deal-with-us-ft-reports-2026-01-27/>.

14 “Binyamin Netanyahu’s Plan to Win Israeli — and Global — Hearts and Minds,” *The Economist*, Jan. 9, 2026, <https://www.economist.com/middle-east-and-africa/2026/01/09/binyamin-netanyahus-plan-to-win-israeli-and-global-hearts-and-minds>.

as much as a military supply arrangement.<sup>15</sup>

Defense procurement is categorically different. It is appropriated through the vastly larger defense budget and distributed across dozens of program lines. It is managed by program executive offices, contracting authorities, and service acquisition commands whose job is to deliver capability on schedule and within cost. It is justified to Congress on the basis of readiness, operational requirements, and the health of the industrial base. Diplomatic or political considerations are, formally at least, beside the point.

When US support for Israel migrates from FMF into defense procurement, it does not simply move between two bureaucratic boxes of equivalent character. It shifts from a system designed for political accountability to one designed for acquisition performance. The oversight mechanisms, the justificatory logic, and the congressional audiences are all different.

### The portfolio that replaces the check

A defense-industrial framework does not produce a single visible check the way an FMF grant does. Instead, it produces a portfolio of instruments, each embedded in normal Pentagon operations:

Procurement contracts and multi-year buys. The Pentagon commits to purchasing weapons systems, munitions, missiles, or components over multiple years. If Israeli firms are embedded as subsystem suppliers or licensors, their revenue scales with US purchase quantities, which are determined by US military requirements rather than by an aid ceiling.

Co-production and licensing. Israeli designs are licensed for manufacture in the United States or co-produced. The Israeli firm receives royalties and sustainment revenue; the US manufacturer captures the assembly work. This is presented as industrial-base strengthening and, from a purely American standpoint, it often is.<sup>16</sup>

Research, development, testing, and evaluation, or RDT&E. Joint development programs are funded through defense R&D accounts. These can be large and long-running, creating deep technological coupling between the two countries' military-industrial sectors.

Industrial-base investments. When the Pentagon identifies a bottleneck that constricts production capacity for a particular munition, component, or platform, it funds capacity expansion. If Israeli IP or subsystems are embedded in the expanded production line, Israeli firms benefit from what is publicly framed as US defense readiness spending.

Sustainment, upgrades, and replenishment. Over the decades-long life of a weapons system, sustainment spending can equal or exceed the original procurement cost. Software updates, spare parts, midlife upgrades, and replenishment after operational use create long, stable revenue streams. These are the tacit commitments that make the relationship durable long after initial agreements expire.

In this context, procurement does not mean a secret transfer or an off-balance-sheet gift. It means something more banal and, for that reason, more scalable. Procurement-coded support is money obligated through Defense Department acquisition pathways for goods and services that serve US

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15 Foreign Assistance Act of 1961, Pub. L. No. 87-195, 75 Stat. 424 (codified as amended at 22 U.S.C. §§ 2151 et seq.); Arms Export Control Act, 22 U.S.C. § 2751 et seq. Under these statutes, the secretary of state bears primary responsibility for the direction of security assistance policy and retains authority to impose conditions on FMF recipients. See also "Application of the Impoundment Control Act to 2019 Apportionment Letters and a Congressional Notification for State Department Foreign Military Financing," US Government Accounting Office, GAO-20-280R (2020).

16 A concrete illustration of this model already in operation: in November 2025, the Raytheon–Rafael joint venture R2S received a \$1.25 billion contract to produce Tamir interceptors — the Iron Dome missile — at a new manufacturing facility in Camden, Arkansas. The facility also produces the SkyHunter variant for the US Marine Corps' Medium-Range Intercept Capability program. Israeli IP (Rafael's design) generates royalties while American labor captures the manufacturing value — a textbook example of the co-production model this paper describes. See "R2S Receives \$1.25 Billion Tamir Production Contract for Facility in Camden, Arkansas," RTX, press release, Nov. 21, 2025, <https://www.rtx.com/news/news-center/2025/11/21/r2s-receives-1-25-billion-tamir-production-contract-for-facility-in-camden-arka>; Seth Frantzman, "US Iron Dome Interceptor Production Site Opens as Israel Places Major New Order," Breaking Defense, November 2025, <https://breakingdefense.com/2025/11/us-iron-dome-interceptor-production-site-opens-as-israel-places-major-new-order/>.

(and sometimes Israeli) operational requirements, including production lots, replenishment, spare parts, training, and sustainment. The specialness is not that Israel suddenly becomes eligible to sell to the Defense Department — the Pentagon already purchases some foreign-origin items when the policy and acquisition rules permit — but that a post-2028 bargain could be designed to embed Israeli firms and Israeli-origin IP inside larger US programs and production runs that scale with US requirements rather than with the politics of foreign aid.

Industrial-base spending is the capacity layer that sits underneath procurement: tooling, facilities, supplier qualification, second sources, workforce pipelines, and test infrastructure. It is the category of spending the Pentagon uses when throughput becomes strategic — precisely the condition that high-intensity war planning has re-elevated. Industrial-base spending is not conceptually about helping Israel; it is justified as improving US surge capacity and supply resilience. But it can be structured so that Israeli designs and subsystems are manufactured at a US scale, with Israeli firms capturing value through licensing, subsystem supply, joint ventures, and long-tail sustainment roles.

This distinction clarifies why the relationship's effective scale can grow even if visible grants shrink. A capped FMF grant is politically salient and set by Congress. A procurement-industrial portfolio can be justified as readiness and can scale with US force-planning needs. That scale can generate a larger cumulative value for both US and Israeli firms because life-cycle sustainment and modernization often rival or exceed the initial procurement cost. The post-2028 migration story is therefore best understood as a shift in how the commitment is cashed out, from visible transfer to embedded production and sustainment ecosystems.

A concrete example illustrates what “industrial base” means on the ground. The US has supported US-based production capacity connected to

Israeli-origin missile defense technology. One recent example is a major contract tied to Tamir interceptor production through a US-Israeli joint venture, framed explicitly as US production capacity.<sup>17</sup> This is not aid in the classic sense; it is US procurement and capacity building that simultaneously embeds Israeli technology in US production lines and creates durable sustainment and replenishment pathways.<sup>18</sup>

In sum, this is essentially an arrangement for payment for services. The key elements of this arrangement are that the ceiling and visibility change when support is embedded in US readiness procurement and industrial-base portfolios, and that Israeli value capture can rise through IP, licensing, and sustainment tails, even if the grant label shrinks.

### Why the effective scale can exceed the old grant baseline

The instinctive assumption is that replacing a \$3.8 billion annual grant with procurement cooperation must mean less money. That assumption is wrong, for a structural reason.

An FMF grant has an explicit ceiling set by Congress. Defense procurement expenditure is calibrated to US military requirements, and those requirements, in an era of high-intensity war planning and replenishment after recent conflicts, are very large. When Israeli firms are embedded as subsystem suppliers, licensors, or co-producers within programs scaled to US needs, the revenue they capture is constrained by American demand, not by a foreign-aid line item.

A stylized example illustrates the arithmetic: a munitions and interceptor capacity package adding \$1–3 billion per year in procurement and industrial-base spending (justified as US readiness), plus a sustainment tail adding \$0.5–1.5 billion per year in services, upgrades, and replenishment. During a crisis, as demonstrated by the post-October 2023 emergency spending surges through supplemental appropriations, these figures can multiply and

17 Seth Frantzman, “Israel Delivers Tamir Interceptors to US Marine Corps for MRIC Program,” *Breaking Defense*, May 1, 2026, <https://breakingdefense.com/2026/05/israel-delivers-tamir-interceptors-to-us-marine-corps-for-mric-program/>.

18 Robert Wall, “Israel Agreed to Almost \$7B in US Orders in 2025,” *Aviation Week*, Jan. 13, 2026, <https://aviationweek.com/defense/budget-policy-operations/israel-agreed-almost-7b-us-orders-2025>; Sharp, “US Foreign Aid to Israel.”

then become normalized as standing sustainment

pipelines once the crisis passes.<sup>19</sup>

## The oversight gap

The most consequential aspect of this institutional shift is political, not financial. The migration from State Department–administered grants to Pentagon–managed procurement fundamentally changes who oversees the relationship, on what terms, and with what tools.

### Why foreign aid is politically visible

Foreign Military Financing is, by design, exposed to politics. It is debated annually in the foreign-operations appropriations process — one of the few moments when Congress explicitly votes on the terms of US military relationships with specific partners. The State Department can attach conditions. Secretaries of state can withhold funds, certify compliance, or publicly state whether conditions have been met. Advocacy groups, journalists, and members of Congress can demand accountability in specific, legible terms (e.g., Has condition X been met? Has the administration invoked authority Y?).

This visibility is uncomfortable for administrations that want to maintain unconditional support. It creates recurring political pressure. It is the mechanism through which demands for Israeli policy adjustments, whether related to settlements, civilian casualties, humanitarian access, or other issues, can be formally linked to military assistance. The link is rarely pulled with real consequences, but it is always there, and it structures the political conversation.

Defense procurement operates in a fundamentally different political ecology. Decisions are made in

program offices by acquisition professionals applying acquisition regulations. Oversight sits primarily with the defense authorization and appropriations committees — powerful bodies, but oriented toward capability, cost, and readiness rather than diplomacy or conditionality. Inspector general reviews and Government Accountability Office reports focus on whether programs are well-run, not on whether the strategic relationship they support is meeting political tests.

Critically, there is no procurement equivalent of an FMF condition. A procurement contract does not contain clauses requiring a foreign partner to modify its foreign policy, restrain its military operations, or make concessions on a peace process. The logic of procurement is performance-based: the contractor delivers the specified item on the specified schedule at the specified price. If Israel is fulfilling its defense-industrial obligations under a co-production contract, it has — by the logic of that system — met all its reciprocity requirements. There is no residual space for demands about Gaza, the West Bank, or relations with Arab neighbors.

### The “America First” rhetorical cover

The political architecture of the new model depends heavily on a framing that has already been explicitly discussed among Israeli policymakers: the “America First” wrapper. Under this logic, defense cooperation is not framed as support for Israel; it is framed as an investment in American military readiness, American industrial capacity, and American jobs.<sup>20</sup>

19 In October 2023, President Biden requested over \$14 billion in emergency supplemental assistance for Israel. Congress subsequently passed the National Security Supplemental Act (Pub. L. 118-50, April 2024), providing over \$26 billion in assistance to Israel, including funds for munitions replenishment, missile defense, and additional FMF. See Sharp, “US Foreign Aid to Israel”; H.R. 6126, Israel Security Supplemental Appropriations Act, 118th Congress; and William Hartung, “US Military Aid and Arms Transfers to Israel, October 2023–September 2025,” Quincy Institute for Responsible Statecraft, Oct. 7, 2025, <https://quincyinst.org/research/u-s-military-aid-and-arms-transfers-to-israel-october-2023-september-2025/>.

20 Ravid, “Scoop”; Berman, “Israel Seeking 20-Year ‘America-First’ Security Agreement.”

This framing is robust because there are genuine US industrial benefits from some forms of defense cooperation. But it serves a second function by immunizing the relationship against the reciprocity critique that has always been available within the aid frame. The traditional skeptic's argument — “we give billions, but they just do what they want” — loses its purchase when the official rationale is American procurement rather than Israeli assistance.

Within the procurement framework, the congressional defense committees can respond: “We are buying readiness, not giving charity.”

The practical consequence is that demands for policy conditionality become awkward to press. According to the system's internal logic, if Israel meets its contractual obligations, it is a reliable partner. Demands that it change its behavior on other dimensions are treated as external to the procurement relationship, as if asking a defense contractor to alter its foreign policy before receiving payment for agreed deliverables.



## Where leverage goes — and what it can and cannot do

A common and legitimate critique of US military support for Israel has always been that the grants buy little actual leverage. The critique is usually framed as a problem of political will: Successive administrations have been unwilling to credibly threaten to withhold aid regardless of Israeli conduct. That analysis is partly right. But it misses something important about what changes in a defense-industrial model.

Leverage does not disappear, even if it migrates. In some respects, it becomes more tangible, not less. A defense-industrial partner that depends on the United States for software updates, spare parts, replenishment, and configuration control is more operationally dependent than one that receives a cash grant to spend on the open market. The access decisions, data rights provisions, and sustainment pipeline controls that sit inside procurement relationships are, in technical terms, genuine points of leverage.

The problem is that this leverage is bureaucratic, not political. It is exercised by program managers and contracting officers applying acquisition logic, not by diplomats or elected officials applying foreign-policy logic. It is most effective at shaping technical outcomes, such as interoperability standards,

software configurations, and production schedules. It is poorly suited to shaping political behavior, which in Israel's case might encompass settlement expansion, military operations, and humanitarian policy, because those questions do not arise as issues in acquisition governance.

For advocates of using the military relationship to press Israel on Palestinian issues, this distinction is critical. The political moment at which conditions can be imposed — the annual aid vote, the certification requirement, the public debate over a large and visible grant — has no counterpart in procurement governance. By the time a program is embedded in production lines and sustainment pipelines, the question of whether it should continue at all is practically foreclosed. The costs of unwinding are too high, and the constituencies for continuation are too entrenched.

# What to watch — signals that the shift is real

The post-2028 agreement has not yet been negotiated.<sup>21</sup> But the direction is sufficiently clear that observers can identify the specific signals that will confirm whether re-instrumentation is occurring in substance, not just in rhetoric.

## Budget and program signals

The most reliable evidence will not appear in press releases or diplomatic communiqués. It will appear in budget justification documents, program element descriptions, and procurement quantity tables in the president’s budget submission and congressional committee reports. Analysts should watch for developments such as the creation or expansion of joint cooperative program elements justified in readiness and industrial-base terms within the defense budget; multi-year procurement authorities that embed Israeli subsystems or IP in US production contracts; and industrial base investment funds directed at capacity expansions that reference Israeli-origin technology.

## Industrial signals

The Israeli defense sector will adapt to the new environment by repositioning inside US procurement

channels. Among key indicators will be the establishment or expansion of US subsidiaries by major Israeli defense firms; licensing arrangements that allow Israeli designs to be manufactured in the United States while generating royalties back to Israeli IP owners; and formal supplier qualification of Israeli-origin components for programs designated as US industrial priorities.<sup>22</sup>

## Governance signals

The most consequential signals are in the realm of governance rather than finance. The creation of standing joint steering committees, technology release procedures, replenishment governance mechanisms, and data rights frameworks, embedded in acquisition agreements rather than diplomatic communiqués, would indicate that re-instrumentation has moved beyond rhetoric into institutional architecture. These arrangements create path dependencies. Once they exist, unwinding them is expensive, politically painful, and practically disruptive.

21 Key defense trade press and policy analyses informing expectations for the post-2028 MOU include: Daniel Shapiro, “Let’s Talk About the Next US–Israel Military-Assistance Agreement,” *Defense One*, January 2025, <https://www.defenseone.com/ideas/2025/01/next-us-israel-mou/402674/>; Bradley Bowman, “Beyond the US–Israel MOU: The Case for a Strategic Partnership Agreement,” *Foundation for Defense of Democracies*, Dec. 19, 2025, <https://www.fdd.org/analysis/2025/12/19/beyond-the-u-s-israel-mou-the-case-for-a-strategic-partnership-agreement/>; Matthew Shea, “Israel Said to Eye New Defense Agreement with US as Future of Military Assistance Faces Uncertainty,” *Jewish Insider*, November 2025, <https://jewishinsider.com/2025/11/israel-u-s-memorandum-of-understanding-foreign-aid/>; Yonah Jeremy Bob, “How Independent Should Israel Be of US Weapons Support as Sides Dive into MOU? Analysis,” *Jerusalem Post*, February 2025, <https://www.jpost.com/israel-news/defense-news/article-881423>; and Ravid, “Scoop.” For a longer-horizon structural analysis, see also Evental and Zehavi, “A Review of the Negotiations.”

22 By 2024, Israel’s defense exports had reached a record approximately \$14.8 billion annually — more than double the \$5.7 billion figure cited by the Obama administration at the time of the 2016 MOU negotiations. Elbit Systems, Israel Aerospace Industries, and Rafael Advanced Defense Systems are among the world’s top 50 defense companies by revenue. This dramatic export growth both vindicates the Obama administration’s assessment of Israeli industry maturity and signals the sector’s capacity to pursue US procurement integration aggressively. See Tzally Greenberg, “Israel Announces Defense Export Record: \$15 Billion in 2024,” *Defense News*, June 5, 2025, <https://www.defensenews.com/global/mideast-africa/2025/06/05/israel-announces-defense-export-record-15-billion-in-2024/>; Seth Frantzman, “Israeli Defense Industry Looks to Capitalize on Hard-Won Combat Lessons: 2026 Preview,” *Breaking Defense*, January 2026, <https://breakingdefense.com/2026/01/israeli-defense-industry-looks-to-capitalize-on-hard-won-combat-lessons-2026-preview/>.



# The Palestinian question and what changes

The most politically sensitive implication of the shift concerns the Palestinian issue. For decades, critics of unconditional US military support for Israel have argued that the grants should carry conditions related to Israeli policy in the occupied territories, especially regarding settlement construction, use of US-supplied weapons in populated areas, and restrictions on humanitarian aid. Successive administrations have resisted imposing such conditions, but the political mechanisms for demanding them, including the annual aid vote, the certification process, and the State Department's legal authorities, have remained available, at least in principle.

Re-instrumentation removes that mechanism, not by legislating it away, but by making it institutionally irrelevant. Under a procurement model, the relevant congressional audiences are the armed services committees and the defense appropriators, rather than the foreign relations and foreign operations committees, which have historically been the venues for debates over conditionality. The armed services committees are oriented toward capability and

readiness, not toward diplomatic compliance. Their oversight tools are designed to evaluate whether programs deliver military value, not whether they are contributing to political outcomes in foreign policy.

When a senator or representative demands that aid be conditioned on Israeli behavior, the response — under a procurement model — is structurally different from that under an aid model. The administration can honestly say that the relevant spending is neither aid nor subject to the authorities' foreign-assistance conditionality. It is a procurement program meeting a readiness requirement. The formal legal answer may well be that the tools critics are reaching for do not apply here.

This is not to say that US leverage over Israeli behavior disappears entirely. It does not. But the specific political mechanism that has, however fitfully, connected Israeli conduct to the terms of US military support — the foreign-assistance architecture — is being disassembled and replaced with something that lacks a comparable conditionality function.



# The oversight question — can accountability be redesigned?

The transition to a defense-industrial model does not automatically mean that accountability disappears. But it does mean that existing accountability mechanisms designed for foreign assistance no longer fit the instrument. If democratic oversight is to be preserved for a relationship that will remain politically controversial, it must be explicitly designed into the new architecture rather than assumed.

A minimal but workable oversight framework for a procurement-centered relationship would require three elements.

First, program-level transparency: unclassified reporting, at regular intervals, on the major cooperative portfolios, what is being funded, in what amounts, with what claimed US readiness benefits, and with what industrial-base effects. Sensitive

technical details could be held in classified annexes, but the existence, scale, and rationale of programs should be publicly stated.

Second, cross-committee coordination: mechanisms to ensure that the foreign affairs and foreign operations committees retain some visibility into a relationship that will increasingly be managed through the defense committees. Without this, the separation of venues produces a separation of accountability, in which defense committees ask about capability, foreign affairs committees are rendered irrelevant, and no one asks about the relationship as a whole.

Third, the use of metrics to test whether the “America First” justification is substantively true: whether, for example, throughput has increased, whether genuine surge capacity exists, and whether the industrial benefits are real rather than accepted as a rhetorical formality.

These are the conditions under which a controversial relationship can remain politically sustainable over time. The historical record suggests that when partnerships are managed through opacity, the eventual crisis of exposure tends to be more destabilizing than the accumulated friction of regular, transparent debate.



## Conclusion — quieter does not mean smaller

The post-2028 US–Israel defense relationship will likely be recast to reduce its political profile. The annual aid vote, one of the most predictably contentious moments in future US foreign-policy debates, may fade away, replaced by procurement decisions that attract little public attention and even less organized opposition. Israeli officials will be able to claim, accurately in formal terms, that Israel no longer receives American aid. American officials will be able to defend the spending as investment in US readiness rather than largesse to a foreign partner.

None of that makes the relationship smaller. The financial flows may be as large as or larger than the current baseline, depending on how procurement portfolios scale and how sustainment tails develop.

The strategic coupling will deepen. The industrial interdependencies will become harder and more costly to unwind. And the mechanisms that once, however imperfectly, provided political leverage and diplomatic accountability will have been dismantled and replaced with something that operates on entirely different terms.

For observers trying to understand US–Israel relations, the practical implication is methodological. The aid vote is no longer the right place to look. Instead, the key data will be located in the procurement budget, industrial-base investments, sustainment pipeline, IP licensing arrangements, and workshare provisions. The consequential decisions will be made in those domains.

# Annex: Key terms and reference figures

Memorandum of Understanding, MOU: The current MOU (FY2019–FY2028) commits \$3.3B per year in FMF plus \$500M per year in cooperative missile defense funding, totaling \$38B over the decade.<sup>23</sup>

Foreign Military Financing, or FMF: Grant aid administered under the Foreign Assistance Act, disbursed through the State Department. Subject to congressional appropriations in the foreign-operations budget and potentially to conditions attached by the secretary of state.

Offshore Procurement, or OSP: A provision allowing Israel to spend a share of its FMF grant on Israeli–origin defense articles. The OSP share was approximately 25 percent at the start of the current MOU and phased to zero by FY2028, eliminating roughly \$825M per year in domestically-directed demand for Israeli industry.<sup>24</sup>

Foreign Military Sales, or FMS: A separate procurement mechanism through which the US government acts as an intermediary in arms purchases. As of April 2025, there were 751 active FMS cases with Israel valued at \$39.2B — illustrating the scale of the parallel procurement ecosystem that already exists alongside the grant relationship.<sup>25</sup>

Defense Industrial Base, or DIB: The network of firms, facilities, and capabilities that support US defense production. Pentagon DIB investments are used to fund capacity expansion, second-source qualification, and tooling — and can serve as vehicles for embedding foreign-origin IP and components in US production.

Sustainment: Post-procurement activity including spare parts, repairs, software updates, midlife upgrades, and replenishment. In modern systems, sustainment costs over a program’s life often equal or exceed initial procurement costs and create long-duration revenue streams for suppliers.

Research, Development, Testing, and Evaluation, or RDT&E: The Pentagon’s investment in new capabilities. Joint RDT&E programs create deep technological coupling and establish IP relationships that govern future production, upgrades, and export options.

23 “Fact Sheet,” The White House.

24 OSP was first authorized by Congress following Israel’s cancellation of the Lavi fighter jet program in August 1987 — a cancellation that occurred partly under US government pressure, since the Lavi would have competed with American aircraft manufacturers in third-country export markets. The original 1984 congressional authorization for offshore procurement was specific to the Lavi program; subsequent legislation expanded eligibility to “other activities if requested by Israel” and eventually to “advanced weapons systems,” allowing broad use of OSP funds across the Israeli defense sector. The 1988 appropriation included \$400 million for OSP specifically to offset Lavi cancellation costs. See “US Funds Used for Terminating Israel’s Lavi Aircraft Program,” US General Accounting Office, Report NSIAD-90-3 (November 1989), <https://www.gao.gov/assets/nsiad-90-3.pdf>; “Israel: US Military Aid Spent In-Country,” US General Accounting Office, Report NSIAD-91-169 (1991), <https://www.gao.gov/assets/nsiad-91-169.pdf>.

25 “US Security Cooperation with Israel,” US Department of State, Bureau of Political-Military Affairs, updated April 2025, <https://www.state.gov/u-s-security-cooperation-with-israel>.

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