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Submitted by

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ISRAEL

NOTE

This estimate assesses Israel's situation with particular reference to its central problem of security. In the radically altered situation arising from the June war, Israel's security problems have two major aspects: (a) its military capabilities compared to those of the Arabs; and (b) the political, psychological, diplomatic, and administrative questions involved in dealing with the occupied territories and with its Arab neighbors in circumstances short of war.

CONCLUSIONS

A. Despite its smashing victory in the June 1967 war, Israel finds that acceptance by its Arab neighbors continues to elude it. A formal peace settlement is out of the question, and the present stalemate, with Israel occupying large tracts of territory and controlling a million Arabs, will probably continue for a long time.

B. Arab terrorist activity is likely to increase, though Israel will be able to keep it under control. Incidents along the cease-fire lines will also continue. Israel will retaliate on occasion, and this could develop into heavy fighting. In the longer run, continued Israeli occupation will almost certainly lead to a new round of major hostilities.

C. In this condition of uneasy truce, Israel will maintain a military superiority over the Arabs, with a view to deterring them or, if war comes, defeating them quickly enough to prevent serious damage to itself. This means modern weapons. Israel probably sees France as a not very reliable source of such arms, at least as long as de Gaulle is in power, and will look increasingly to the US. But it will also try to produce as much as possible of its own military equipment.

D. Six years ago, Israel contracted with a French supplier for a surface-to-surface missile with a range of 280 nautical miles. It could be deployed in Israel in 1969, if de Gaulle permits it. If he refuses to

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allow the French firm to deliver the missiles or to assist Israel in manufacturing them, the latter could go ahead on its own, but it would probably take at least five years to deploy a missile system.



DISCUSSION

I. ISRAEL'S PROBLEMS

1. At the beginning of its third decade of existence, Israel has won a quick and decisive victory in the largest of its three wars with its Arab neighbors. Israel feels that this has put it in a uniquely strong position to achieve its long sought objectives of obliging the Arabs to recognize its existence, to enter into direct negotiations, and to make permanent peace with it. Yet the Arabs are stubbornly refusing to do anything of the kind. In these circumstances, Israel has three broad courses of action it can follow, i.e., hold out for its maximum demands, seek the substance of its territorial and security aims without formal agreement, or scale down its demands in return for Arab concessions.

2. Israel's leaders have a united country behind them on virtually all the critical issues which affect the country's security. The country is still dominated by an aging "establishment"—largely of East European origin—which has its center of power in the Mapai Party. A younger generation, mostly native Israelis, seeks to break the old guard's hold on power. For the most part, the challengers are now working within the new Israel Labor Party and share the domestic views of their elders—a moderate socialism, devotion to maintaining high living standards, and a determination to maintain and inculcate essentially European values in society despite Israel's location in the Middle East and its growing majority of Jews of oriental origin. The rise of new men to power in the next several years—Dayan, for example, is a leading contender to succeed Eshkol as Prime Minister—will probably not bring about much change in Israel's domestic policies and politics. The main difference between the generations is one of approach to international problems; the new generation of native-born Israelis feels fewer inhibitions about retaining Arab territory and is less inclined to compromise with great power interests in the area. While such Israelis will almost certainly seek big power support, they will be less amenable than their elders to external influence.

3. Compared to the issue of security, Israel's domestic concerns, though troublesome, are scarcely critical. Its economy, for example, has shown impressive growth and has brought Israel a standard of living comparable to that of most of Western Europe. But the economy has weaknesses of high cost and of strong orientation toward internal consumption; these hinder the growth of exports. Economic activity has been heavily dependent on construction, and this has fallen off when the level of immigration declines. As a consequence of the above factors and of government action to promote exports and control inflation, Israel's gross national product increased only about one percent in 1966, as against an annual average of 9.5 percent for the preceding 10 years.

4. The government's efforts to revive the economy will probably result in a four to five percent growth rate in the next year or so. Israel will remain heavily

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dependent for years to come on foreign financial support. Such support has tended to increase markedly in times of Arab-Israeli tension and has enabled Israel to increase its foreign exchange reserves steadily over the past half dozen years, despite an annual average trade gap of \$350 million. The 1967 war resulted in a net gain of at least \$350 million in foreign exchange (two-thirds of it from the US). The war also brought added foreign exchange costs for replacing expended armament and acquiring more modern equipment, especially aircraft. On the whole, however, foreign exchange is unlikely to be a problem for Israel for a very long time to come, since its appeal to foreign sentiment will almost certainly continue to fill its needs.

5. Israel also has the problem of integrating Jews from the Near East and North Africa—now about 50 percent of the total Jewish population of the state—into a society dominated by European cultural values. The high birthrate of the oriental Jews, slackening immigration from Europe, and increased emigration by Israelis of European origin portend long-term social and cultural trends which may eventually bring significant changes in the character of the Israeli state. But it will be many years before such changes substantially alter the nature of the government or its policies. Meanwhile, all these domestic issues will remain subordinate to the overriding questions of security, relations with the Arabs, and Israel's ultimate status in the Near East.

II. THE QUEST FOR SECURITY

6. Israel's fundamental foreign policy is to secure the broadest possible support for itself as the rightful occupant of Palestine. Israel's insistence on direct negotiations and its desire for a formal peace settlement stem from its desire to commit the Arabs to a binding acceptance of Israel's legitimacy. In regard to specific issues, Israel wants secure transit of the Suez Canal and the Tiran Strait, permanent borders which give it certain pieces of land important for security, and demilitarized zones on the Arab side of at least certain of the new borders. It also wants to retain East Jerusalem—important to the Israelis for historical and religious reasons. Israeli public opinion would not tolerate returning this area to Jordanian control, and the Israeli Government will almost certainly not do so, though it probably would concede to outsiders a voice in the supervision of Muslim and Christian holy places.

7. The Arab States regard Israeli insistence on direct negotiations as an attempt to force them into a permanent peace with Israel. Even in their defeated condition, they show no sign of yielding to this demand. They continue to believe that external pressure, especially from the US, could make Israel bring the form and substance of its peace terms closer to Arab positions. For most Arabs, no settlement would be acceptable which did not involve Israeli withdrawal from most of the territory taken in the June war and give the refugees of the 1948-1949 war at least some option to return to Israel. Jordan and Egypt probably would be willing to agree to some modifications of prehostilities lines in return for Israeli withdrawal, but such modifications would be smaller than those Israel

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wants. Syria rejects any compromise and publicly advocates military action, although it has avoided provoking Israeli forces along its cease-fire line. Many Palestinian Arabs also take a highly intransigent position. Nasser and Hussain, aware of their military weakness, are trying to use diplomatic means to get Israel to withdraw. Hussain feels that he cannot make any deal with Israel that is not acceptable to Nasser. Moreover, both rulers are inhibited from dealing directly with Israel, and feel limited in the concessions they can make, by fear of domestic opposition and of criticism from other Arab States.

8. The gap between the two sides is very wide. In time, Israel might abandon its insistence on direct negotiations and a formal settlement. It is unlikely substantially to reduce its territorial demands or to withdraw from Sinai without obtaining transit rights through the Suez Canal. Though Israel has reluctantly accepted the UN as a communications channel, it will strenuously resist giving powers as a mediator to the UN or any other intermediary. The Arab States give little indication of readiness even to edge into discussions with Israel. In these circumstances, a formal peace settlement is out of the question, and progress toward even a limited accommodation will at best be slow and halting. Meanwhile, the Israelis are prepared to keep their forces deployed along the present lines.

9. A stalemate of this sort presents problems for Israel and could, in time, sharpen internal differences concerning policies toward the Arabs. The Israelis must decide how to cope with the population of the occupied lands, especially the West Bank and Gaza. About 200,000 Arabs fled from the West Bank and Gaza during and immediately after the June war; the flow now is a few thousand monthly, and relatively few have been allowed to return. But even so, incorporating the newly occupied territory into Israel would add a million Arabs to the population, of which they would then constitute one-third. Almost all Israelis would regard this as an unacceptably high proportion. An alternative would be to give occupied Palestine some form of autonomy. But it would be difficult to get enough cooperation from Palestinian leaders to make such a scheme workable. Most of them would fear that the territory might later be turned back to Jordan or Egypt as part of a broader settlement, in which case there would be reprisals against them for collaboration.

10. Another troublesome aspect of the problem of Arab population concerns the refugees of the 1948-1949 war. Camps containing some 400,000 of these refugees have now come under Israeli control. The Israelis have considered resettling some of them in certain parts of the West Bank and in the al-Arish region of northern Sinai, but neither of these areas has known water resources adequate for large agricultural or industrial development, and any effort to provide the water would be very expensive. Israel would welcome the departure of these refugees to Arab lands. It has to some extent encouraged such a movement, though it recognizes that world opinion would sharply oppose a mass expulsion. On the whole, we doubt that the Israelis will make much progress in reducing the numbers of camp-dwelling refugees.

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11. The present situation has certain advantages from the Israeli point of view; the cease-fire lines are now shorter and more defensible than before the June war, and farther away from major Israeli cities and towns. Increased revenues from tourism and from exploitation of Sinai oil offset to some degree occupation costs, which in any case are not excessive—some \$45-\$60 million annually. Israel feels that these territories are useful as a bargaining counter.

12. On the other hand, if Israel continues to occupy conquered territory for an extended period, say two to three years, it will find it increasingly difficult to relinquish control. Domestic pressures to establish Israeli paramilitary settlements in occupied areas would grow, and it would be harder to turn back to the Arabs land which contained such settlements.

13. The continued stalemate is already encouraging the Arabs, especially the Palestinians, to look increasingly to terrorism as a means of compelling Israeli withdrawal from occupied territory. The Syrians will probably continue to dispatch terrorists through Jordan with the objectives of harassing Israel and causing trouble for Hussain while trying to avoid Israeli retaliation on Syria. Other terrorist activities will probably be carried out or instigated from time to time by various Palestinian organizations in Jordan and elsewhere. Israeli security forces will continue to deal harshly with infiltrators and to retaliate for border incidents or sabotage. Such retaliation will sometimes be on a scale which could lead to heavy fighting.

14. So far, Jordan has borne the brunt of Israeli reprisals. Hussain has tried to control terrorism and to send home the Iraqi troops in Jordan who assist the terrorists. However, the unpopularity of this stand has been increased by the Israeli reprisals, and Hussain now is tending to tolerate such activity in order to avoid further weakening his position. The Israelis appear to be little concerned whether he stays or goes.

15. In the longer run, the frustration of the Arab States would almost certainly drive them to seek military means of compelling Israeli withdrawal. For some time to come, Arab leaders will probably not believe their forces capable of defeating the Israelis. But they will build up these forces and, in time, will probably seek to avenge the 1967 defeat. The Egyptians, in particular, may come to believe that they could win a limited victory over the Israelis, e.g., dislodging them from the East Bank of the Suez Canal. The Arabs will, of course, be influenced by their reading of the attitudes and commitments of the major powers, but whatever the precise course of events, continued Israeli occupation will almost certainly lead to a new round of major hostilities in the future.

16. Israel considers that a close association with the US is very important to its own security and would hesitate to follow a course that it thought would jeopardize the relationship. It believes—as do the Arabs—that the US would not permit Israel to suffer a substantial military defeat. To further this association, Israel will continue to depict US and Israeli interests in the area as identical. It will stress that US support will build up Israel as a strong counter to the extension of Soviet influence in the region.

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17. Israeli attitudes toward the Soviets are ambivalent. The Soviets provide political support for the Arab cause and are the main source of arms for militant Arab regimes. Israel will continue to be concerned lest the USSR's eagerness to cultivate the Arabs might encourage the latter to adopt a dangerously aggressive attitude. On the other hand, the USSR affirms Israel's right to exist and has advised the Arabs to recognize Israel's existence and to use peaceful means of settling their disputes with it. Moreover, the Soviet Union is the home of two and a half million Jews—potential emigrants and potential victims in purges and plots. Accordingly, Israel will seek to keep Soviet-Israeli relations as friendly as circumstances will allow, but it will also continue to regard Moscow with suspicion and distrust.

The Military Balance

18. In light of all this, Israel sees a continuing need for a clear military superiority. At present, this superiority rests on a combination of factors, in some of which the Arabs suffer very deep, long-term disadvantages. Arab armed forces can easily enough acquire good weaponry, but they lack the intangibles of high motivation, effective training, and vigorous and imaginative leadership. Current programs for the resupply of weapons and extensive training of Arab armed forces will probably restore and even increase their capabilities, although they probably will not be back at their 4 June 1967 standard before 1969. But it would require years to effect fundamental changes in the unimaginative and inflexible attitudes of the Arab officer corps, or to change the conditions under which Arab military professionalism is now undermined by recurrent purges, arrests, and reassignments for political reasons. Hence, the Israelis will remain militarily stronger than their Arab neighbors.

19. The Israelis see a need not only to be militarily stronger than the Arabs, but to be able to defeat them quickly and without suffering much damage in return. The Israelis are convinced that if their own armed forces were badly defeated or if their small country suffered serious physical damage, it would mean the end of Israel as a state. Hence, they are determined to stay well ahead of their Arab neighbors in modern weapons.

20. Until the 1960's, Israel bought most of its military equipment from European sources; its aircraft were almost exclusively from France, its naval vessels and newer tanks mostly from Great Britain. Since 1962, the US has played an increasing role as a supplier, first with Hawk surface-to-air missiles, then with medium tanks, more recently with tactical attack aircraft. Israel has made it clear that it will continue to look to the US for certain types of military equipment, including aircraft and probably armored vehicles. Israel will also continue to seek armored vehicles from the UK.

21. The special relationship which France and Israel built up in the 1950's has been weakening. In the wake of the June war, Paris placed an embargo on certain arms shipments to combatants. This has already been relaxed to some extent, and there is a fair chance that Israel will eventually get the 50 Mirage-5 aircraft

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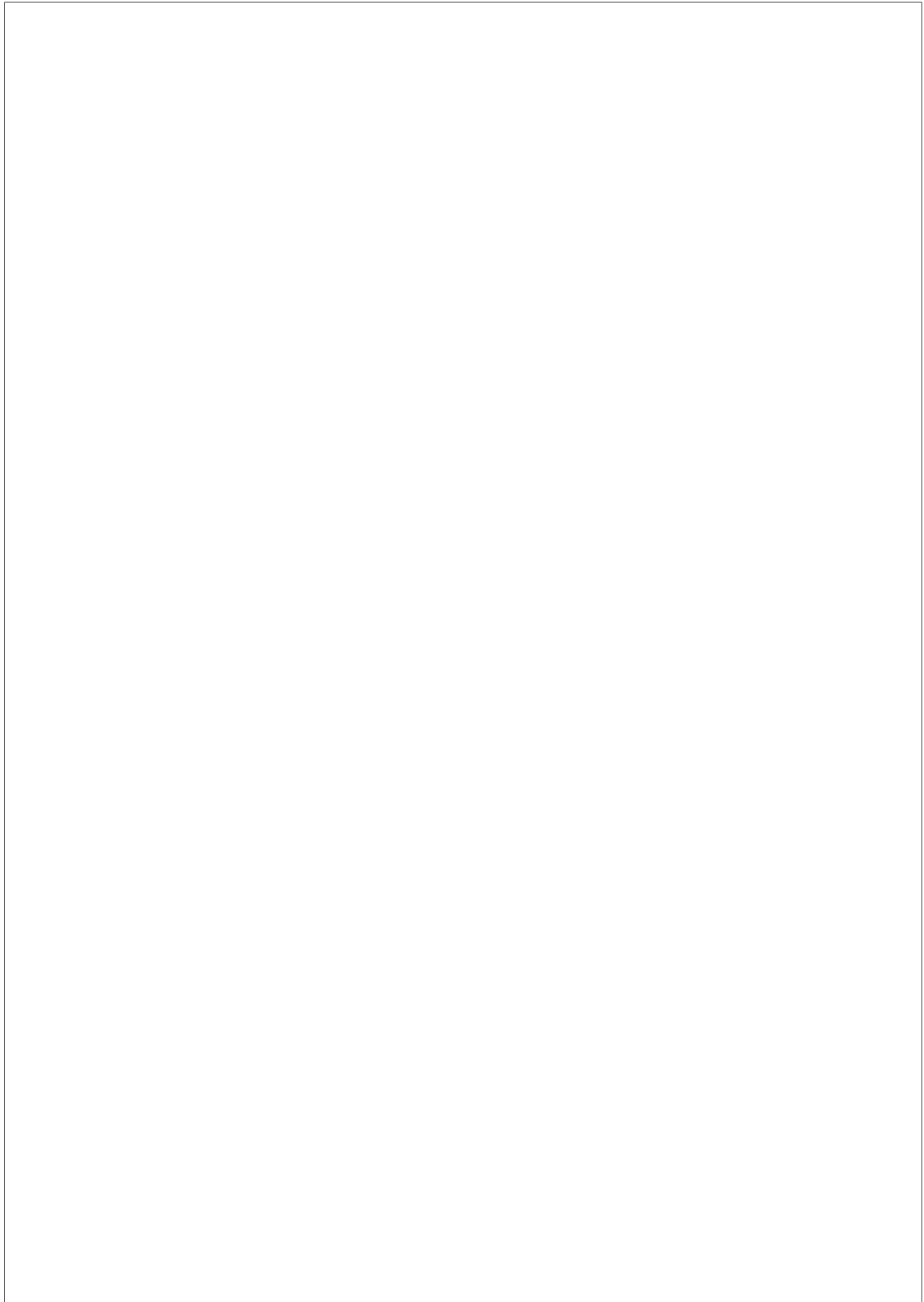
it contracted for some time ago, though delivery is likely to be further delayed. Israel has already received from France the first of at least five of a new class of torpedo boats which will carry the Israeli-developed *Gabriel* cruise missile. However, France is not likely to be a reliable source of military equipment for Israel, at least as long as de Gaulle remains in power.

22. The uncertainties of dependence upon foreign suppliers is impelling Israel toward the manufacture of as much as possible of its own military equipment. It already produces almost all its small arms, most categories of ammunition, some artillery, some transport equipment, and even some missiles and aircraft. The industrial base for the manufacture of heavy equipment, e.g., tanks, submarines, and sophisticated aircraft, is deficient but improving; for materiel in these categories, Israel will continue to be dependent on external sources. But in some types of advanced weapons, Israel has the know-how and the resources to supply itself, if need be.

23. *Missiles.* In 1962, Israel made an agreement with the French firm of Marcel Dassault for the design, building, and testing of the MD-620, a missile with a payload of 3,000 pounds and a range of about 280 nautical miles. The program has proceeded slowly, but the missile has now been fired at least once at full range. Although considerable testing and refinement still remain to be done, we believe that development of the missile by Dassault has proceeded to the point that deployment in Israel in 1969 would be technically possible. We do not know how many missiles the Israelis intend to deploy. If they propose to use a high-explosive or chemical warfare warhead, they will presumably see a need for many more missiles than if nuclear warheads were used. It may be that Israel will decide to have some warheads of each type.

24. The picture is complicated by the pro-Arab stand that de Gaulle has taken since the June 1967 war. There is some question whether he would permit MD-620 missiles to be manufactured in France for Israel. He might be more disposed to let Israel get French technical help in building missiles for itself. In any case, he would find it more difficult to prevent Israel from getting this sort of assistance. Israel has, of course, paid substantial sums for the MD-620 research, development, and testing program, and almost certainly has specifications and other useful data. Moreover, Israel has done a considerable amount of domestic missile research, and has purchased missile-related manufacturing and testing equipment over the past six years or so. It has developed the *Gabriel* ship-to-ship cruise missile, which has a range of 3.3 to 11 nautical miles and is about ready for use. With the knowledge gained in these various ways, Israel could go ahead on its own to build the MD-620, if de Gaulle refused to permit the Dassault firm either to deliver the missiles or to assist Israel in manufacturing them. But without French help, it probably would take Israel at least five years to deploy a missile system, and the cost would be substantially greater.

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