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ISRAEL'S ECONOMY AND SECURITY
IN A CHANGING MIDDLE EAST

AN ADDRESS BY ISRAELI MINISTER OF ECONOMY
NAFTALI BENNETT

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Featured Speaker:

NAFTALI BENNETT
Israeli Minister of Economy, Religious Services,
and Jerusalem & Diaspora Affairs

Moderator:

TAMARA COFMAN WITTES
Senior Fellow and Director, Saban Center for Middle East Policy
The Brookings Institution

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PROCEEDINGS

MS. WITTES: Ladies and gentlemen, good afternoon. Welcome to the Saban Center for Middle East Policy at the Brookings Institution. Thank you for joining us.

I'm Tamara Wittes, the Saban Center's director, and I'm delighted to welcome to our podium and to Brookings this afternoon Minister Naftali Bennett. Mr. Bennett, you are here in Washington at a critical moment. Issues of regional security that have been brewing for years seem to be coming to a head, whether it is the international community's confrontation with Iran over its nuclear program, the efforts to achieve at last a final status agreement between Israelis and Palestinians to settle that historic conflict, and of course the ongoing turmoil in the region, in the Arab world, as a result of the revolutions that began in 2011. It is a full agenda, but I know it's not your only agenda.

You have also entered the government at a moment when Israel is facing historic challenges and choices about its domestic economy, about how to make best use of new energy resources being discovered off its coast, how to sustain an economy built on innovation and entrepreneurship at a moment when some of the social divides within Israel are being felt very keenly. And so, you are poised and your government is poised to deal with some historic issues that all seem to be coming to a head at the same moment, and I'm really delighted that we have the opportunity to hear from you and to have a conversation with you on all of those issues this afternoon.

Ladies and gentlemen, Minister Bennett is here for a consultation

with the Administration, with Congress, and also for a visit to the American Jewish community because in addition to being Israel's Minister of Economy and Minister of Jerusalem Affairs, he is also Minister of Diaspora Affairs as well as Minister of Religious Services. I'm amazed you find time to eat. He is the chairman of the Jewish Home party, HaBayit HaYehudi, the third-largest political party in the government of Israel, and is a member of Israel's inner security cabinet.

But before entering politics, Minister Bennett and three of his friends co-founded a little tech startup, an anti-fraud software company where Minister Bennett served as CEO, which when it was sold a few years ago netted \$145 million. So, Minister Bennett embodies the innovative spirit of Israel's high-tech economy.

During his service in the Israel defense forces he was commander of one of the army's most elite commando units, leading soldiers on counter-terror operations. He holds the rank of major today in the reserves of the general staff reconnaissance unit, known as Sayeret Matkal. Minister Bennett grew up in Haifa, the son of immigrants from California, and he has his law degree from the Hebrew University of Jerusalem. And I also learned, Minister Bennett, that I should hope keenly for an invitation to your home because I understand that your wife is a very accomplished pastry chef. So, perhaps one day I'll be lucky enough to meet her as well.

In the meantime, we are grateful to you for taking time out of your very busy set of official meetings to spend some time with us and we welcome

you to our podium. Thank you. (Applause)

MR. BENNETT: Thank you very much, Tamara. Since you mentioned my wife, I just have to show off a bit. She was a pastry chef in New York City and William Grimes, then the food critic of the *New York Times*, wrote that her crème brûlée restored his faith in crème brûlée. So now we have a shrine in our house with the *New York Times* piece.

I also have to mention -- you know, every time I come to the States I always see the differences. Two main things come to mind. In Israel it's considered very impolite to let the other side actually complete the full sentence. And secondly, in Israel we have a unique physical trait, physics where when an elevator opens up people can actually enter the elevator before the other people leave the elevator, and somehow it works.

So distinguished guests, Dr. Tamara Wittes, and the rest of the staff here at Brookings, thank you very much for hosting me today. It's truly an honor to be here and I applaud you on the work that you're doing to help advance the Israeli-American relationship. I, myself, read a lot of your research.

Three thousand years ago, King David founded the Jewish state and our eternal capital, Jerusalem. In the thousands of years that followed, the Jewish people fought off danger and persecution. Tyrants came to power seeking our destruction, but we survived, persevered, and held on to our land and our religion. We never gave up, we never will give up.

I'm going to show you something. Here in my hand I'm holding a 2,000-year-old coin from the year 66, one of many discovered right outside the

ancient walls of Jerusalem, the old city. And I'll read what it says on it. It says, (reading in Hebrew) in Hebrew. (Reading in Hebrew) is the freedom of Zion. Interesting that if I entered a time machine 2,000 years backward I'd actually after a couple of days be able to speak the same language, just adapt the accent. But they spoke back then the very same Hebrew that we speak today at the very same land where we live today, and those are my direct ancestors.

So, it took a while but eventually the Jewish people got the job done. Today we're back at home in Israel. In 1948 we established the state of Israel, in 1967 we liberated the United Jerusalem.

I say this for those who continue to claim that the Jewish people do not have a historical, national, or religious link to our land, and there are such people. I show the coin so people who continue to call and work towards our destruction understand that they'll never succeed. We're here to stay.

The Jewish nation survives largely because we don't give up on our past. In Israel, we might be able to travel on the same paths that Abraham, Jacob, and King David walked, but at the same time all of us are paving new roads in science and technology. This manifests itself in no place better than Jerusalem, where you can visit the Temple Mount, the Western Wall, and the Dome of the Rock, and then on the very same day head over to nearby Intel factory where the chips in your Samsung tablets are developed. You can walk the Villa de la Rosa, tour the Church of Holy Sepulcher, and then visit the R&D center of NDS, a company that was founded by Israeli entrepreneurs and sold to Sysco last year for \$5 billion. We preserve our great history but at the same

time, we're building our future.

Ladies and gentlemen, from Tunisia to Egypt, Jordan to Syria, and Libya to Lebanon, a storm has hit the seas that surround us. It's a storm that's just begun but it could last for 10, 20, maybe 50 years. It's the storm of radical Islam with the ultimate goal of creating a regional hegemony. But there is one place that has withstood the storm. This place is Israel.

Israel is a lighthouse in a storm. Like a lighthouse, Israel has strong foundations; a flourishing democracy, a strong economy, it's growing, and the most powerful military in the region, and our roots to this land date back 3,800 years. Israel will withstand any storm, no matter how fierce it might be.

But a lighthouse is not only about having strong foundations. It also projects light to the world. Israel is the only true democracy in the Middle East. We're the only country where all religions can practice openly and free of persecution. In Israel, unlike some of our neighbors, women can drive, elections are free, and people can protest against the government without fear of imprisonment or death. And, man, they protest a lot. It's the one place where Jews together with 1.7 million Israeli Arabs enjoy full and equal rights.

But despite these successes in our state of 65 years there are still some people in the region who have yet to come to terms with our very existence. Instead of embracing our democracy they fire rockets our way. Instead of accepting our hand of peace, they plot to undermine our way of life. Instead of teaching their children love, they spread hatred to the next generation.

This is a new era. This is the era of chaos. On our Northern

border, Hezbollah has built up an arsenal of over 100,000 rockets and missiles, perhaps the most concentrated such group in the world. On our Southern border, we're facing a growing threat in the Sinai from terrorists in Gaza working together with global jihad elements who originate in places like Saudi Arabia, Iraq, and Yemen. And in Syria to the Northeast, the Al-Nusra Front is setting up shop and part of the violence there is already spilling over the border into Israel.

But there's also some good news. This is the first time in Israeli history that we're not facing an immediate conventional threat. The Syrian military has eroded and peace with Egypt has survived its most challenging days in history. We do not control the region and the chaos has nothing to do with what we do. Therefore, our policy as a government has been quite simple. We do not interfere with chaos, we do not try and influence chaos and the region.

In Syria for example, we expect ongoing instability in the future. We're also not sure what the outcome of the ongoing conflict will be. Will Assad emerge victorious, or will he be toppled by the rebels? We don't even know what's the right outcome, if you will. It's so chaotic.

But as a nation that values life and abides by the Talmudic dictum that he who saves one life is as if he has saved an entire universe, we couldn't simply stand by and watch tens of thousands of people get slaughtered. For that reason, without fanfare or publicity we quietly constructed a field hospital in a small enclave along the border where IDF medical teams have treated hundreds of wounded Syrians. A few weeks ago, an eight-year-old Syrian girl was brought to the border from her home in the Daraa region in Southern Syria. Her leg had

been shattered in a mortar attack. We didn't ask if it was a mortar fired by Assad's forces or the rebels, but we took her in and brought her to a hospital in Zefat, where she underwent surgery. A few days ago, she took her first steps. We did this because it's our responsibility as a lighthouse in this era of chaos.

With this as the Middle East backdrop, I'd like to share with you my own story. I was born in Israel to American immigrants who had come from California. I grew up in Haifa, many call the San Francisco of Israel, a city on the shores of the Mediterranean, with the same TV shows and fast food like the rest of you. At 18, I was drafted into the army and served in Sayeret Matkal, one of IDF's elite commando units. It's the unit that did Entebbe back in 1976.

After the army I began working in high tech and in 1999 I co-founded Cyota with three very gifted friends. What Cyota does is anti-fraud software for banks. So when you log on to Chase.com or Citibank.com, we actually make sure that it's you and not someone who stole your username and password pretending to be you. And today, 70 percent of North American online banking transactions go through my company's software, as we speak. We look at anomalies and things that don't make sense. Why is Tamara in Latvia right now transferring \$30,000 to North Korea, for example. (Laughter) So, we're really protecting the West and Western Europe and Japan against the bad guys.

So in 2005, we sold the company for the \$145 million, and that's the point where I'm supposed to be in the Caribbean with one of those little cocktails and an umbrella in a pool. But Hezbollah had other plans and on July 12, 2006, the very day I finished in my company they started the second

Lebanese War -- Lebanon War by kidnapping two soldiers. And instead of vacation I found myself deep inside Lebanon leading commandos on covert operations. My job and my expertise in the military was to hunt down and destroy rocket launchers which were being used by Hezbollah in attacks against Israel. In fact, they were shooting at Haifa where my parents lived, so I really did feel that I'm protecting my own family.

And here's what a typical Hezbollah house looks like. You have a living room, a dining room, a kitchen, kid's room, and a missile room where there's a missile launcher, a moveable ceiling. They shoot the missile and then they close up the ceiling. That's how they operate. That's the enemy we're up against.

The Lebanese War made me realize something. My generation, which came to age in the '80s, you know, the 40-year-olds, we took Israel for granted. I grew up never thinking that we face an existential threat and, likewise, like all of us who grew up in the '80s -- I was born in 1972, the year before the Yom Kippur War. I didn't experience it. And it was just, you know, obvious that there's no existential threat.

And then inside of Lebanon there were a few new things that happened to me. First of all, it was the first time I was fighting as a dad. I had my one-year-old Yunni who was already born and my second daughter was in the tummy of my wife. My wife was pregnant. I'll tell you one thing, it's a whole different ball game when you have young kids. I now understand why people go to the army at the age of 18 and not later on.

But, the second thing that struck me, I was there and I asked what do they want? What does Hezbollah want from Israel? Do they have any territorial claim? No. We left Lebanon to the very last centimeter in 2000. And then I realized what now everyone realizes, they just don't want Israel to be. But that was not obvious to us until 2006.

So with that in mind, I decided to leave the private sector and enter the public sector. I spent a couple of years with Netanyahu as his chief of staff in 2006 to 2008. Recently, about a year and a half ago, I ran to lead the Jewish Home party and won the primaries and changed the mission from being a lobby party for the religious people, those with the yarmulkes, to being a party with a mission and a goal, to restore Israel's Jewish identity, pride, and purpose within our people.

One of the first things I did was open up the party so secular Israelis can enter. And interestingly, the number two individual who was elected in these primaries was a secular woman, which is unexpected. So, the religious folks basically said, we want to open up the party. First time in 100 years of this party that pre-dated Israel.

And I believe that's part of my mission, to serve as a bridge between the secular and ultra-orthodox. In Israel -- something we need to learn from you -- in Israel everything is in a compartment. So you have a knitted yarmulke, which means you're Zionist and religious, or a black yarmulke which means you're Haredi or ultra-religious, but is it big? And what if it's black and knitted? That's confusing.

And I view this mission of creating this bridge -- I'll give you one example. So the Kotel, the Western Wall, has been an area of conflict for 25 years because it is controlled by the orthodox. And what happens to egalitarian -- to other streams of reforms, conservatives? They couldn't come and pray the way they want to pray. 25 years of fighting. Two and a half months ago, I instructed the CEO of my Ministry quietly, go build a third plaza. You have a men's plaza, a women's plaza, go build a third one 50 meters to the right -- and it's up. And he asked me, are you sure you don't want to bring it to the government? I said, no, do not bring it to the government. We'll argue it to death. Just go build the thing. And it's beautiful and, in fact, this week there was a huge prayer of about 400 American Jews, and I'm proud today that we have a third plaza which I call the Israel plaza which is open for everyone. And we're not afraid to make these changes. We're opening up competition in marriages, in conversions, all -- we don't go against Halacha. We are willing to move.

For the first time in the past 40 years, daylight savings time doesn't end mid-Summer because until this year, for some reason, they told us that it's because it will be hard to fast on Yom Kippur. But we're all alive. We fasted on Yom Kippur. In fact, I got another hour to sleep between prayers.

In this era of chaos it might be quiet today and might erupt tomorrow. The focus today is on enhancing our intelligence capabilities as well as bolstering our deterrents. So when you want to be strong you need to know what the bad guys are doing and you need them to be afraid to act. These are the foundations of the lighthouse.

In Syria, for example, while our policy has been not to get involved we have set clear red lines that if crossed our hand will be forced to act. These lines include a violation of our sovereignty in the Golan Heights, the proliferation of chemical weapons, and the transfer of sophisticated weaponry to Hezbollah. This is all part of a larger strategy aimed at boosting our deterrents and getting our adversaries to understand that there are clear rules even in this era of chaos. That's what real deterrence is about. You have to be able to act and you have to be willing to act. Able to act and willing to act.

Real deterrence is when you hit back after one small push instead of waiting for the next and harder push to come. This is very important. The deal brokered by the U.S. and Russia with Syria is an example of this idea. When faced with a real and credible military threat posed by a government prepared to pull the trigger, Assad backed down. Israel supports the deal to remove the 1,200 tons of chemical weapons from Syria. These weapons have posed a major strategic threat to our country for many years. Their removal would be a very positive development.

But we need to ensure that the weapons are really removed and that the pressure on Assad does not falter. This same strategy is crucial for achieving success in the ongoing talks with Iran. This pressure, too, must not falter.

I want to be very clear. There's no country in the world that wants more a deal with Iran that ends its nuclear weapons program than Israel. I mean, it's us who will get the potential 100,000 missiles on our head if a war starts. But

if Iran obtains nuclear weapons they'll be pointed directly at us and threaten not just our cities but our very existence. We'll be the first target, but make no mistake. We won't be their last. They already have missiles that can reach Rome, Madrid, and London.

Putting together a nuclear suitcase that can blow up in New York is not that difficult. I was in New York during 9-11. Extraordinary things can happen, things that you don't want. So, this is not about us, it's not about Israel. While we genuinely hope this can be avoided, we cannot sit quietly as the West rushes into a deal with Iran that could be catastrophic. A deal that does not dismantle Iran's nuclear program will enable the Islamic republic to become a nuclear state. That's what we call a bad deal. It's one of those moments in time that people will look back one day and say that's when we could have done things differently.

I understand that people are tired. Tired of war, tired of confrontation. Let's see what's happening. Iran's economy is in shambles due to the sanctions of the West. America did a very good job in leading these sanctions and with this pressure in place, now is the precise time to tell them either or. Either you have a nuclear weapon program or you have an economy, but you can't have both. It's like a boxing match where the other guy is on the floor, the referee is counting six, seven, eight, nine, and at this very last moment we go and pick him up and let off the pressure. Now is not the time to let up.

I want to be clear about what needs to be achieved. The goal is not to merely pause the program, click that pause button. That's not the goal.

The goal is to dismantle the program. I'll explain.

So, Iran has a machine that produces uranium, and that uranium is poured into let's call it a bucket. This pipe that produces the uranium back in 2006 had 164 centrifuges when the Security Council had a resolution that forbade them to add even 1. Now, they have 18,500, up from 164. There were four or five security resolutions that explicitly forbade them from doing that, but they continue.

So what we don't want is someone to turn the knob and stop the flow of uranium, and even take the bucket away. Why? Because 3,000 centrifuges a year running create enough uranium for 1 bomb. So, 18,500 running, of which 1,000 are 5 times strong, so we're talking about 23,000. If you divide -- so they can do about 7-1/2 bombs a year. If you divide 12 by 7-1/2 you're looking at about 6 weeks of breakout time with this pipeline.

So what's their plan? Their plan is to turn the knob, slow down the production right now, and wait for an opportune moment when the West is busy with some crisis, and then turn it on. They don't plan to break out today. That would be absurd, because they'd be isolated by the world. They plan to wait, play the game, play the Persian negotiation game, and then at the right time, turn it on. But now's the opportunity to take the whole pipeline and take it apart, and that's the difference between a good deal and a bad deal. We don't want to pause it, we want to take it apart. That's what anyone who seeks a free West, not being threatened by radical Islam, should hope for.

So we in Israel want nothing more than a peaceful outcome to the

Iranian challenge. Indeed, in our history we had great relations with Iran and the Persian people. Two thousand five hundred years ago it was Cyrus, Kores, who made a famous declaration that allowed the Jews to return to Israel after the Babylonians expelled themselves from the land of Israel. So there were two famous declarations, Cyrus and Balfour. Every kid learns that. So, they allowed us to restore our homeland, As minister of economy of Israel I await the day when I'll be able to sit down and sign an FTA, a free-trade agreement with my Iranian counterpart. But that doesn't mean that we're going to remain silent, sit on the sidelines, and deposit our fate in the hands of others.

Israel will never outsource its security, and our track record speaks for itself. 1981, with the world against us, we sent out our air force to bomb and destroy the Osirak reactor that Saddam Hussein was building outside of Bagdad. In 2007 we allegedly did the same in Syria. Twice, we saved -- allegedly -- twice we saved the world from mad men with nuclear weapons. We did so because we understood our place in history. We did so because we understood our responsibility. We did so because like a lighthouse in an era of chaos. We knew what was needed to project to the world what was right. We felt the commitment not only to ourselves but to the entire world.

While some of the challenges I discussed are immense -- it's not easy to be in our neighborhood -- this era of chaos has not slowed us down. Our economy is growing, our currency is very strong -- a bit too strong -- and we're continuing to maintain our status as the start-up nation. I yearn for the day, though, when we'll be able to repeat the words Menachem Begin said on the

occasion of peace with Egypt. No more war, no more bloodshed.

I fought in the West Bank in Operation Defensive Shield in 2002 and again in Lebanon in the summer of 2006. I've led troops behind enemy lines many times, and I've watched friends get shot and wounded. Some of them I've had to bury.

This era of chaos perhaps may accompany us for 50 years to come, but there is one place in the region which is quiet. That's Israel, including Judea-Samaria, what most of you would refer to as the West Bank. And while I yearn for peace, I do not believe that now in this era of chaos is the time for us to gamble with our security.

So what do you do? You try a new strategy. This is what I think needs to be done. We need to work from the bottom up with a major economic boost to the Palestinian economy and to work to create the conditions on the ground necessary for peace. That's the way to create peace.

Ladies and gentlemen, I'm often asked what the secret is to Israel's rise as a high-tech superpower to becoming the start-up nation. Some say it's because of our chutzpah. We simply don't know how to take "no" for an answer. But I think it's simply that we don't have a choice. Throughout our entire history as a nation, even when we had some of the closest friends, at the end of the day we could rely only on ourselves.

For 2,000 years we've been kicked out from one place to another, so in many cases Jews didn't invest in real estate but in the brains of their children and education. While we take pride when companies like Google,

Apple, and Microsoft buy up Israeli companies for hundreds of millions of dollars, I believe that as a lighthouse it is our responsibility to project good to the world. That's why, as minister of economy in Israel, I've put an emphasis on five different technologies: water, agriculture and food, alternative energy, cybersecurity, and medical devices. In each of these areas, Israel can export its innovation to help make the world a better place. It's not only about doing well, we also have to do good.

As minister, I'm also committed to tackling the issues needed to ensure we'll continue to grow as the strongest economy in our region. Most importantly, I focus on jobs and workforce participation. I've identified that the decades of governments in Israel have failed to address the low participation rates of Israeli-Arab women in the workforce. It's only about 27 percent.

So, we acknowledge the problem and we've taken on responsibility, and I've created a plan to bring employment rates up from that 27 percent to more than double over the next 3, 4 years. We've opened up 12 out of 27 employment centers, a one-stop shop for these Arab women where you come in and get a full solution.

This won't just strengthen the Israeli-Arab community, it'll strengthen our joint and national economy. I also believe that once we get people to work side-by-side with an Arab woman or a Haredi man the prejudice that does exist will gradually dissolve. I'm determined to meet this goal.

Ladies and gentlemen, after 65 years we're not yet at the stage where we can rest and lay down our weapons. Not at all. But as we say in our

daily prayers, (speaking in Hebrew), place peace over us and the entire world. The coin I just showed you before symbolizes not just our past but our future. The Jewish people were in the land of Israel 2,000 years ago and will continue to be there for another 2,000 years and another 2,000 years. Even in this era of chaos, like a lighthouse we'll continue to project light to the world. We'll continue to strive for a better future for all mankind.

(Speaking in Hebrew), thank you. (Applause)

MS. WITTES: And we'll give them just a minute. Is the microphone on? Can you hear, folks in the back? Ah, that sounds better. Okay.

MR. BENNETT: Thank you.

MS. WITTES: Well, Minister Bennett, thank you very much for that fulsome overview. I'd like to -- I notice you said you read a lot of our research, you didn't say whether you agreed with it. But we'll get to that.

MR. BENNETT: I'm a diplomat these days.

MS. WITTES: I'd like to start, if I may, with your personal story. You described growing up in the 1980s as an era when you and your cohort of young Israelis took the state for granted -- took the security of the state for granted. And it was, relatively speaking, the mid-, late-1980s a quiet period for Israel.

I wonder, there was one key development during those years that you didn't mention, and I'm curious how it affected your thinking as you grew to adulthood, as you joined the army. And that's 1987 and the first Palestinian intifada. Because part of that period of the 1980s was taking for granted that the

Palestinians living in the West Bank and Gaza were not going to undertake any mass-mobilization for their own independence, for their own political aspirations. 1987 challenged that view.

So, I'm curious as you were growing up -- you were in high school at the time, you were thinking about being inducted into the IDF. How did those events shape your view? And how do you see those indigenous demands for national independence amongst Palestinians today?

MR. BENNETT: So, I think I first actually felt intifada as a soldier in 1990 when I joined the military, and back then we -- the interaction was immense because we controlled and governed them. So, there were roughly 2 million Arabs whose lives Israel, to a large degree, controlled. Education, building a house, it all required permits and what have you.

In 1995 it all changed. 1993, '94, '95, the Oslo accords essentially finished that. We no longer governed the overwhelming majority of Palestinians. I guess there's -- something I should elaborate upon. In Judea-Samaria, a.k.a. the West Bank, call it whatever you want, there's two types of areas. You have the Israeli-controlled areas, what's called Area C, and you have the Palestinian-controlled areas, what's called Areas A and B.

In the Arab -- in the Palestinian-controlled areas you have a ballpark of about 2 million Arabs, Palestinians, and not one Jew living there. And there, the Palestinian Authority governs. So they pay their own taxes, they vote in their own elections, albeit they vote for Hamas in a majority, which -- I don't know if it was the wisest thing. They build their own homes as much as they

want.

In the Israeli-controlled areas, there's roughly 400,000 Israelis living in Judea-Samaria, not including Jerusalem. Four hundred thousand. There's big cities, it's not the small tent with a guy with an uzi. It's a big chunk of Israel. And there is roughly 70,000 -- others will say 100,000. Something in the ballpark of 70- to 100,000 Palestinians.

So the situation that I was familiar with during the first intifada no longer exists. You don't see soldiers strolling around Ramallah or Nablus. It's been separated. And in that sense, we no longer control them. Is it a state? No, it's not. It's less than a state, in many aspects. It's not contiguous, it's not the overall security responsibility. The responsibility is ours. So, I don't want to pretend there to be a state because there's not.

But, the situation on ground until three months ago when the peace talks started, we had -- both sides experienced the quietest period in decades. In fact, I believe that 2012 was the first year in history that there wasn't one terror victim, not one. You know, we're talking down from hundreds and just a decade ago. And on the Palestinian side, the trend on ground is good. There's more and more businesses, there's more and more joint shopping centers. The infrastructure is getting better.

So, we're not out there singing "Kumbaya" together, okay? There's no love in the air. If the Palestinians could press a button and we'd evaporate, they would, and vice versa, right? There's no love in the air. But there is a degree of realization that no one is going anywhere. They're here to

stay, we're here to stay, now let's figure out how we live side-by-side. And that's what's going on on-ground.

MS. WITTES: So, as somebody who has spoken so eloquently as you just did about the commitment to national independence and national sovereignty of the Jewish people, is it your view that Palestinians can fulfill their aspirations without a state?

MR. BENNETT: Well, here is the situation. To some degree it's a tragedy. The reality that we've seen for the past 20 years is that any time we vacate any piece of land anywhere, be it Lebanon, be it Judea-Samaria, be it Gaza, within weeks or months the vacuum gets filled by Iran. So, it happened in Lebanon. We left Lebanon and even after the second Lebanon war there was an agreement called 1707 Resolution that said not 1 missile will enter Southern Lebanon. Since then, 100,000 missiles entered Southern Lebanon and are threatening my children's life.

We vacated Judea-Samaria during Oslo. We pulled out of the cities and, as a result, they killed over 1,000 Israelis in our cities, in Tel Aviv, in Haifa, in Jerusalem. It was hell. It was simply hell to live in Israel during those years. Anyone Israeli here I can see are sort of saying, yeah, you wouldn't go to a coffee shop, you wouldn't get on a bus. By the way, it was a very antisocial terror because they'd always blow up busses. So, it would hit the poorer people and not the more wealthy.

In Gaza we pulled out, gave them -- we kicked out 8,000 Jews from their houses, forcefully. It's free of Jews. Yet days after leaving Gaza they

began shooting missiles. So what we learn -- not once, not twice, but three times. This isn't working. And their desire for a state conflicts our desire to be, to live.

I've got four kids in Ra'anana. Yunni, who is eight years old, Michael who is six, Abigail four, and David, a year-and-a-half-year-old. Ra'anana is sort of the Beverly Hills of Israel, all right? It's a suburb out of Tel Aviv, affluent, pretty. But like most of main Israel, it's about 5 kilometers from the Green Line. I want to be very clear what this means. Israel is very narrow, as you may know. If you have a mountain and then a low plain -- you have a high mountain that's about 1 kilometer high and then a plain just about sea level. The narrow plain would be the small Israel and the mountain would be the potential Palestine. The narrow plain, from side to side -- if you get in a car and drive -- it's like a hot dog. It's a 15-minute ride, even less. Fifteen kilometers. So, if you drive 100 kilometers an hour, it's about 10 minutes. That's the whole width of Israel.

Now, we're basically being told, you go establish a Palestinian state and somehow hope this time it'll work. This time, they'll, you know, be like Switzerland. I remember what we were told when we pulled out of Gaza. President Peres talked about Singapore of the Middle East. Turned into Afghanistan of Israel.

So, you know, fooled once, fooled twice, fooled three times, no. I'm not going to risk my children's life, period. And that's why I'm vehemently opposed to injecting a Palestinian state into the heart of our land.

And one more point. There's a term that goes on and on again. We're being called "occupiers." We're being called "occupiers." I just showed you a coin from 2,000 years ago. The coin is from Jerusalem, the same Jerusalem that this proposed settlement would divide. You can't occupy your own home. It doesn't work. When you live in your home, you can't be considered an occupier.

Yes, there are 2 million Arabs, yes, we need to figure out what to do. I have a few ideas. But there's no occupation in your own home.

MS. WITTES: Okay, well, I'd like to come back if we have time to the ideas because you mentioned also in your prepared remarks that it's time to think of alternatives. You talked about creating the conditions for peace. So what those conditions are, in your view, I think is worth getting to. But if I may, because our time is short, turn to politics, you are a senior minister in a government committed to achieving a two-state solution with the Palestinians.

The prime minister, you've been quoted saying you think he sincerely believes in the necessity of the two-state solution. Your coalition partner, Yair Lapid, supports a two-state solution. So how do you sit in a government that's committed to a path that you believe endangers your children and Israeli's children.

MR. BENNETT: That's a very good question, and indeed when we entered this government I knowingly entered a government with an objective that is different than my opinion, okay? So how do you operate? This is Israel, the land of the impossible.

Here's what I did. Certainly I hold my opinions and I oppose this. However, I told the prime minister, here's what I want to do. Let's put a bill, a referendum bill, and let the negotiations continue as, you know, freely. Let Tzipi Livni, our foreign minister, go meet --- our foreign minister, our justice minister, go meet Saeb Erekat, go bring peace. Go do it. Which is very un-typical of sort of the right wing. Typically we'd -- go do it.

If you reach a deal, let's bring it to the people and I'll make my best case possible and we'll respect whatever the people decide. This is a profound statement. By the way, some people think I did this to sabotage the negotiations. That's the contrary. It's not that I want to help the negotiations, but my biggest fear is a civil war, and I think the referendum structure is the right way to decide something so fundamental.

But here's the thing. All the Palestinians actually need to do is recognize Israel as the Jewish homeland. If they recognize Israel as the Jewish homeland, I think they'll get what they want, notwithstanding my opposition. But they won't. Why? Why is this so important? I don't need the Arabs to recognize my Jewishness or my connection to the land. People don't understand why this is such an important demand.

It's a demand because it ultimately means we have no further demands. Because what I think is, they're not willing to give up their desire for a Palestinian state in the smaller Israel. So, a day after we found this Palestinian state they'll say, fine. There's a Palestinian state and now there's an Israeli state, who said it's Jewish? There's 1.7 million Arabs. We want our own state. And it

will never end, and that's why the insistence of end of all claims and their recognition of Israel as the Jewish homeland is so fundamental. But they won't do it.

MS. WITTES: So you are so persuaded that the negotiations can't succeed that you're willing to let them go forward. That's what I hear you say.

MR. BENNETT: In a sense, no. I'm persuaded also that if we bring our case to the Israeli public, that's the best we can do. And the combination, yes, it's true that as Abba Eban once said, the Palestinians never miss an opportunity to miss an opportunity. But I'm calling Tzipi's bluff in a way, if you will. I don't think this is leading anywhere, that's why let it be. As long as we don't cave in on the most basic issues of security and not dividing Jerusalem and the recognition of Israel as the Jewish homeland.

MS. WITTES: So you're saying whatever she manages to achieve at the table, you won't block it in the cabinet? You'll let it go to referendum and have a --

MR. BENNETT: No, of course, I'll -- of course, in the cabinet -- it's a democracy. I'll state -- I'll vote against it. But you know, I'll make my best case. Of course I will. But it's -- we're not -- whoever thinks that over the next six months what didn't happen when Barack was willing to give it all, when Olmert was willing to give it all, well, some reason happened with Abu Mazen -- and keep in mind something very basic. There's two Palestinian entities now. There's a Hamas entity in Gaza and an Abu Mazen PLO entity in the West Bank.

Now, this is sort of strange. Let's say we get a deal with Abu Mazen. Does it commit Hamas or not? And clearly the answer is, it doesn't.

So it's sort of like I'm selling a home but I own it and also my wife owns it, half and half, let's say. She's not willing to sell but I'll take your money and give you half of the house. What is it worth if he doesn't bring the entire Palestinian people? And he can't.

So, this is all a charade that generates this big industry of peace-making and think tanks -- sorry -- and think tanks and organizations and all this stuff, but it's a charade. No, not every problem in life is solvable. Sometimes you have to live through a problem, you know. Are all marriages perfect? No, they aren't, but you live through it, you manage it. This is a conflict that right now isn't solvable. But where's the tragedy that, once in a while, someone comes from the outside and says, I'm going to solve it with just enough determination, yeah, we know the answer. And then it creates expectations and it fails, and then we have another conflict, another intifada.

And incidentally, since the peace talks have started, we've had five deadly incidents of murders of Israelis, which we hadn't had for years. Somehow, peace always brings -- peace talks bring the country -- it's a unique and extraordinary region.

MS. WITTES: Okay. You spoke of the need to look for alternatives to create the conditions of peace. You talked about trying to generate economic cooperation on the ground. Can you fill in a little bit more meat on the bones of what that alternative vision is and how it creates conditions

for peaceful coexistence?

MR. BENNETT: Sure. So, what's the idea? Since there's an unsolvable problem, let's do everything we can to make life better for everyone, first of all. That's an absolute fact that if you make life better for everyone you're doing something good. And that's what we're doing right now.

You know, there's junctions in -- I take it back. The roads in Judea-Samaria are one. They serve the Palestinians and the Israelis. We ride the same roads. It's not a double -- let's fix those. Let's expand the roads, let's create better intersections. When there's a traffic jam, Palestinians and Israelis are stuck in the same jam. Let's take away the roadblocks. 95 percent of the roadblocks have been removed. If it were up to me, I would remove all of them. Let's create full freedom of movement, which is really the main pain point. Let's look at the actual pain.

Let's foster and build more joint businesses, more industry centers where Jews and Arabs -- when Palestinians and Israelis can build businesses and work. You know, today 30,000 Palestinians work together with Israelis. When they work in an Israeli business, they're subject to Israeli labor law -- I'm the labor minister. Got so many caps to camouflage my baldness.

So, they actually earn -- the minimal wages in Israel are 3-1/2 to 4 times the average salary in the Palestinian authority. So let's get more of this going. We're actually supporting roughly 20 percent of the income in the Palestinian authority. Let's make life better.

If it were up to me -- and it's not, yet -- I would tear down the

fence. We don't need that fence. People who think the fence is generating security are wrong. You know, I'll give you an example. The fence has not been completed in the Jerusalem area. In Southern Jerusalem, there is no fence that separates Judea-Samaria and Jerusalem, yet there's no terror. So you'd say, hey, if the fence is what's stopping terror there ought to have been terror. No. It's Israel's security control that prevents it. There's an irony.

MS. WITTES: So you can envision a future in which there's no Green Line, there's no security barriers, there's freedom of movement back and forth?

MR. BENNETT: Yes.

MS. WITTES: And freedom of movement for Palestinians through the West Bank and Israel, therefore.

MR. BENNETT: Yes, and they could go to the beach, which they can't because the beach is in smaller Israel. Yes, that's the way it used to be. Yes, yes. But because I respect them and they govern themselves, they vote. Now, I'm not going to tell them how to govern themselves. If they want their own parliament, like they have today, so be it. If they want to form a confederation with Jordan, so be it. I think it's not a bad idea to increase Jordanian involvement because they're a stable entity. And, by the way, roughly 70 percent of Jordanians are Palestinian. Did you know that? Seven out of 10 Jordanians are Palestinian.

So there's many ideas. I think that we should apply Israeli law on the Israeli-controlled areas, which I mentioned before, and offer full, equal Israeli

citizenship to those 70,000 Palestinians. I'm not afraid of that. It won't make a dent on our demography.

By the way, the Palestinian demography is moving downward because of modernization, because of birth control, because of women going out to work. Also, in Israel, it used to be that an Arab mom gave birth to roughly eight children; now it's down to three. It used to be that a Jewish mom gave birth to 2.2 and now it's up to 3. So we're exactly at the parity.

MS. WITTES: So the demographic arguments don't trouble you at this point.

MR. BENNETT: Time is not against us. Time is not against us and we should stop scaring ourselves. But I'm so frustrated in some cases the degree of investment in fantasy solutions, in this fantasy world, and the millions and perhaps hundreds of millions of dollars invested in something that's not going to work, let's take that money and fix that junction where two years ago a Palestinian bus had a traffic accident and a few -- I believe eight Palestinian kids died. That's better.

Now, is it perfect? No. What I'm suggesting is an imperfect route. I don't have a perfect solution because it's a complicated situation. I just don't.

MS. WITTES: Your staff is giving me the eye, but perhaps I can detain you for five more minutes so we can talk about Iran, which is a major focus of your meetings here. You noted that the goal is not to put a pause on Iran's nuclear weapons program. The goal is prevention. And --

MR. BENNETT: Is dismantling the entire machine, yes.

MS. WITTES: Okay.

MR. BENNETT: Which will buy us about three years of breakout time as opposed to six months -- six weeks.

MS. WITTES: Okay. So dismantling the enrichment capacity, the chains of centrifuges --

MR. BENNETT: And Iraq's, yeah.

MS. WITTES: And Iraq puts three years back on the clock.

MR. BENNETT: That's right.

MS. WITTES: But the clock is still ticking. It's not -- you can't destroy this program.

MR. BENNETT: I mean, you can't undo knowledge in a person's brain, but the idea, Tamara, is that three years is ample time for the West to identify what they're trying to do, make decisions, and execute the decision. So America's sort of like an aircraft carrier, it moves, it moves slowly, but, man, when it moves, it's strong.

MS. WITTES: So you're suggesting that the West would need three years in order to align the forces necessary to engage in a preemptive strike, for example?

MR. BENNETT: I'm suggesting -- for example, or to reintroduce sanctions, yeah. It takes time, and we saw that in North Korea. You know, they moved quickly. Anyone who thinks we'll be able to identify, decide, and then align what's necessary to prevent breakout all within six weeks, that just is absurd.

MS. WITTES: Okay. It strikes me -- I mean, it seems to me, certainly from all of the public statements we've heard from Washington, from Jerusalem, that there's agreement between the United States government and the Israeli government on the goal of preventing Iranian nuclear weapons. There seems to be a lot of disagreement about tactics, how we get from point A to point B --

MR. BENNETT: That's right.

MS. WITTES: -- with the P5+1 working on an interim deal that they see as putting a little more time on the clock in order to pursue the big deal. What that big deal would look like is very much open to question. But it certainly seems from the discussions that have taken place already that it's very unlikely that there's any deal the Iranians would agree to that would completely dismantle in the way that you're saying is necessary.

MR. BENNETT: I disagree with that statement. I vehemently disagree. I think that it's totally achievable if we don't let up the pressure and, in fact, increase the pressure. They won't have a choice because they'll have to decide do we want this regime to survive and our economy survive or do we want this nuclear program? And I think --

MS. WITTES: Although in the North Korean case, ultimately, they were willing to accept --

MR. BENNETT: Yeah, but Iran --

MS. WITTES: -- the really dire consequences (inaudible).

MR. BENNETT: But that's the difference. Iran doesn't -- the

Iranian and Persian society is a great society. They're very similar to Israelis, so they're not going to be willing to tolerate the isolation and the way of life that the North Koreans are, for lack of a better term, tolerating. I am convinced that if we ratchet up the pressure, we can get the right deal.

I'll just ask one question. Does anyone honestly think that six months from now we'll have more leverage than we have now after letting up on the sanctions, after we see a wave of companies flock to Iran to do business because they sense that the sanctions are on their way out?

And you said something very interesting, Tamara. You said we don't really know what the big deal is. Why? Why should we reward a regime that has simply disavowed all the Security Council decisions? Why are we rewarding them for being -- for acting as a criminal? They were not allowed to build these centrifuges. Does anyone think they're not out to acquire a nuclear weapon? Does anyone think that you need 18,500 centrifuges for isotopes? Does anyone think that you need a plutonium route that has no civilian use?

So if we establish, A, they want a bomb; B, they really want a bomb because they have invested years in this; and C, we want to prevent them from having a bomb, let's not deceive ourselves. Now's the time. And it's achievable if we -- I'll give you one historic example I've heard. On the Hill today, I heard some people say, well, we're trying to "Gorbachev" Rouhani, to turn him into Gorbachev because he is sort of a Gorbachev. But let's recap what happened back then; people don't remember. Gorbachev didn't turn into Gorbachev. America turned Gorbachev into Gorbachev. In Reykjavik, at the big

summit, the Russians placed a bad deal on the table and Reagan went home, he didn't sign the bad deal. And he went home and ratcheted up the pressure, and that's when Gorbachev turned into Gorbachev. So this notion that he's Gorbachev is wrong. Let's do what worked and it can be done.

I vehemently disagree. What do you mean they won't agree? Yes, they will if they want to save the regime, and there's nothing, as a politician I can tell you, there's nothing politicians want more than survival. (Laughter)

MS. WITTES: Okay, thank you. You know, I think that historical analogy is fascinating. I think there are a lot of us who lived through the Iraq sanctions and Iraq containment efforts who take from that experience just how difficult it is to sustain that international coalition that's necessary to make sanctions effective. You noted just how tough it's been to put this coalition together.

MR. BENNETT: But do you think by dismantling and taking blocks out of the wall that'll strengthen the alliance?

MS. WITTES: Well, I guess the question that I'm asking myself is when do we reach the point -- isn't it possible that this international coalition might start to crumble whether we get a deal next week in Geneva that leads to further negotiations or whether we don't? In other words, the pressure escalates to such a point that it becomes difficult to sustain. And once people start pulling away from sanctions enforcement, as you said, it can collapse very quickly. So if that's the risk we face, isn't it worth trying to put some time back on the clock now, keep the coalition together? Even if there were a military strike, we would

still need a sanctions coalition to contain Iran afterwards. So isn't maintaining that coalition a primary objective in this negotiation?

MR. BENNETT: Well, I think history has taught us that coalitions can sustain themselves if there is leadership and determination and you project clarity of the objective and determination. So if the leaders of the P5+1 project and define the precise objective, not preventing Iran from getting a bomb, but dismantling the machine and say we will not let up, I think that's our best shot at retaining a cohesive coalition.

MS. WITTES: Thank you. Ladies and gentlemen, our guest has meetings waiting for him up on the Hill --

MR. BENNETT: Right now.

MS. WITTES: -- and I think his staff are about to take out the cane and hook him off the stage, so --

MR. BENNETT: Thank you very much.

MS. WITTES: -- Minister Bennett, thank you very, very much for being with us.

(Applause)

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