

TRANSCRIPT

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THIS IS A RUSH TRANSCRIPT AND MAY CONTAIN ERRORS. USERS ARE ADVISED TO CONSULT THEIR OWN TAPES OR NOTES OF THE SESSION IF ABSOLUTE VERIFICATION OF WORDING IS NEEDED.

Q: You had asked for a few minutes at the top here to talk about some subjects, so please be my guest. Go ahead.

A: I will be very brief because I don't want to eat the time of Q&A and I understand we have to be out of here by 9:00, so first of all, thank you all for coming this early in the morning. I'm happy to be here.

I think if you had the privilege today not to meet with me here but being in Israel, not only this would be 3:00 o'clock in the afternoon, you would sense the Israeli society in the area of national security focusing on the following.

Number one, I think is Iran. If you report Israelis, if you talk to Israelis, this is the number one concern on the minds of Israelis. This is perceived as an extremely serious threat. This takes much of the oxygen of the concerns of the society, of the defense establishment, of the leadership of Israel.

In case we forget sometimes, we have Achmadinejad to remind us every other day that we are sitting next to something that may develop to a very very dangerous ticking bomb. So that's one.

Second is terror, and concern of terror and the struggle against terror. This is in different [inaudible] but most pressing currently is the issue of Gaza where it is a matter of every day attacks. Now it's in the pace of origin of 16 rockets and mortars a day launched at our civilian population.

If you were in Israel only yesterday there was a ten year old boy was hit by a rocket in his arm and his sister who is eight years old dragged him from the place to a store and

called for an ambulance, and the entire country was watching his treatment and the attempt to save his hand. Today the story is about a boy who was hit a week ago and lost a foot, and now they are struggling for his second foot. So this is where the country is at these concerns.

The day before yesterday we were all sitting in the office in preparation for what might be Hamas is going to try and send tens of thousands of civilians towards the fence to play on us the number they played on Egypt. So this is a major concern because at the bottom line if they send another related to Iran terror base on the south border.

Number three is the effort of Israel to reach an agreement with Palestinians, and I'm not prioritizing now, but this is obviously very high on the agenda. The balance here is between a very widespread desire, the vast majority of Israelis wish to reach an agreement based on two states -- formula to national homelands, at the same time you have a major concern whether the Palestinians will be able to deliver a compromise and provide for security, and a concern that Israel cannot allow under no circumstances the West Bank to turn into a second Gaza. So you have a vast majority of Israelis supporting in principle the outcome, and the vast majority of Israelis concerned about the ability for that to take place.

Lastly, with all those concerns at the same time Israel continues to build, people are aware that we are celebrating 60th anniversary of rebirth of Israel this year. Just this morning they reported that the annual growth in the last quarter in Israel was 6.4 percent. So the country is very dynamic and developing and the economy is doing very well. So don't get depression from what I've told you that is only concerns. Israel is very special in the sense that while everybody is almost by its genes permanently concerned, everybody at the same time is participating in a great enterprise of building something that we believe is wonderful.

So thank you, and I'll be happy to listen to your questions and refer them to David. [Laughter].

Q: I know there will be many that would like to discuss topic one, but I'd like to start with topic two which is the south and Gaza. There has been a general feeling that after the experience of South Lebanon in '06 that Israel would be self-deterred from a similar sort of major military operation in Gaza. However, recently Israeli officials almost make it seem like such an operation is inevitable. Is it inevitable in your mind?

A: First of all the threat emanating from Gaza is three-fold. One, it's the constant barrage of rockets.

Q: There were four more this morning.

A: In relation to the numbers, it's really insane. When you think about it and try to put yourself in this position, unbearable is an understatement of the year.

Second is the buildup of an even much larger strategic threat. And while this border between Egypt and Gaza, which is eight and a half miles, is not sealed, there is continuous buildup of terror capacity in Gaza. While it was even more open after they broke the wall there, dangerous stuff had been moved in. Dangerous terror operators have moved in. They are getting inside longer range rockets or missiles. They enhance the capacity of manufacture, upgraded equipment. So this is a buildup of somewhat similar to the Hezbollah model on the north, on the southern border. We have like two Iranian divisions -- one sitting on the north, one sitting on the south. That whenever [inaudible] them or their sponsors we would have to confront a major threat. This threat could cover hundreds of thousands of Israelis and major facilities that are of strategic interest. I don't have to tell you the map of Israel, but Ashqelon is already in the range of the rockets. We have major power plant and electricity there. Ashqelon is not too far to the north. This is the largest port in Israel. So we're talking a buildup of a major strategic threat.

Thirdly, the longer they build and the deeper they root themselves it will be that much more difficult to ever have an agreement with the Palestinians implemented in Gaza because I don't think anybody believes that they will voluntarily just say now we've reconsidered and we are going to go out now and give Gaza to President Abbas to implement peace with Israel which we are adamantly opposed to.

So these are three major threats that this continuous situation poses to Israel. The more reasonable way to deal with it would be if the Egyptians could bring about a situation where the border is sealed, and there is no import of terror through its borders with Gaza. We are in constant dialogue with the Egyptians on that and we do it obviously in the spirit of our very important strategic peaceful relations. We hope they will get to the point of creating a new regime that would prevent terror from flowing into Gaza.

If this doesn't happen, Israel will have to act. We act very measuredly today. We are trying to balance our acts. We are trying to be very thoughtful in what we are doing. But the bigger the threat is the more serious the challenge for Israel will be. And you have to look at it both strategically, in terms of the alternative of not doing anything may be much worse than the cost or the would-be cost of doing something, even if it's not perfect. And in the basic commitment of a government to its citizens. If there is some [inaudible] that is beyond argument it's that governments are expected to take whatever steps they can in order to give security, protect the lives, before the jobs, the lives of the citizens. That's something that is a major and growing consideration. That people in the south and people throughout Israel think that the Israeli government needs to look for ways to deal with the threats. If you look at the Israeli polls, the numbers are growing and they are far beyond 50 percent of people expecting the government to take action.

Q: You said that Israel will act if Egypt doesn't move to quarantine or seal off the border, if it's not dealt with that way Israel will act. I'm not asking you to give a timetable, but are we talking weeks, months? This has been going on for a while.

A: I cannot tell you. Maybe I would not have told you even if I knew. But I don't know, and I don't know that anybody knows exactly when this will happen.

By the way, part of it in a very measured way does happen. It's not that there is nothing Israel is doing. Israel is taking it in order to make it more difficult for terrorists to operate from Gaza against it. If we didn't do so we may have had to deal with much more serious threat by now. But as the threat grows I assume that the steps Israel will have to consider will be of a higher significance.

Q: Could you elaborate on "act"? Israel is acting now. It's already acting.

A: Uh huh.

Q: It's trying to disrupt terrorist operations. It's ready to roll in. It comes in, it comes out, it comes in, it comes out. What do you mean by "act"? You're not going to bomb Cairo. What do you mean by "act"?

A: God forbid if I in any way --

Q: What do you mean "act"?

A: It's good that you raise it because I hope I was not in any way being understood that the issue is Egypt. The issue is Hamas and their activity. We hope to cooperate with Egypt in order to control this threat from growing.

There are different options. I don't want to get into them. I can only tell you, as I said at the beginning, people are not waiting for the problem to manifest itself in a much larger scale to start thinking about the options, and people are thinking about the different options, what exactly they are, I hope you will forgive me that I'm not sharing through you with Hamas.

Q: But this is action by Israel. "Act" means Israel acting. It doesn't mean Israel --

A: What did you have in mind?

Q: A more concerted effort to try to get Abbas your peace partner. The leader who you were about to give a lot of the West Bank to, maybe part of Jerusalem, to get him to be more assertive with Hamas. If he can. That's another question.

A: I think it is unrealistic to think that the Abbas-led PA have currently any capacity of any significance to change things on the ground in Gaza. They have very limited capacity so far in the West Bank, which we hope will grow, which we try to assist, that they are moving forward in developing. And we appreciate the effort but we are not blind to the failures. We are talking about the West Bank, not about Gaza.

In the West Bank I think three of the five Israelis who were murdered by terrorists recently were murdered by the PA, related to PA people, not the Hamas people. We have instances of revolving door. Just I think three days ago 14 fugitives decided to leave [inaudible] in [Nablu] so they went out and left. Then they were kind enough to come back, hopefully not to go out again. There is still very unpleasant stuff in Palestinian PA. Palestinian PA in textbooks. They have a lot of work to do for themselves and hopefully for compromise and peace in the West Bank.

I wish reality was different, but if you were to look at how easily Gaza fell into the hands of Hamas, not because they had more people, not because they had more weapons, but because nobody basically confronted them. There is now a report, people say that Palestinian version of the [Vinegrade] report are criticizing, analyzing what happened and how Gaza fell into the hands of Hamas. You should just read what they said to lower your expectations that the PA people can have any serious impact on reality in the ground in Gaza today.

Q: I think the question still hasn't been answered about what Israel could do. That's really what we're wanting to know. How can you help Egypt closer their border? What can you do?

A: The closing of the border is an Egyptian responsibility, not something we can help them with. We are not on the border. We left. We left the border when we left all of Gaza with an agreement with Egypt that they would be responsible for this border. And it's for them to act. They are trying to an extent. We believe it's critical that they do more. We are in close dialogue and discussion with them to see whether they are going to do more.

All I said, there is a correlation between how much terror will continue to flow into Gaza and how much Israel will need to do in Gaza. If this terror [swap] will start growing then Israel would have to do less and we'd be able to be more patient because strategically it will take a down-turn. If it continues to grow then Israel will have to consider other options.

Some of you asked me what could be these other options. It's too early in the morning for me to forget what I said that this is something I would appreciate not to get into.

Q: Mr. Ambassador, could you be a little more specific when you're talking about the dangerous stuff that Hamas is bringing into Gaza? What kind of reading are you getting from Washington about this developing situation? Are you getting a green light? Are you seeking a green light? Or it's not on the table yet?

A: Let me start with the second. It's not a matter of going light, it's a matter of understanding Israel's right and need to defend itself. The thing that you hear from statements of the administration that there is understanding to Israel's right and need to defend itself.

Secondly, or if you want firstly, it's largely in three forms. It is money, it is weapons and explosives and I'll get to it in brief in a second, and it's people who have been trained by terror masters, be it Iran-related directly or Hezbollah. Iran-related indirectly through Hezbollah. They have, we believe, brought in recently a significant amount of explosives, advanced explosives. A significant amount of mines, rockets that are longer range, anti-tank equipment that is more advanced, and people who have been trained in Iran and were waiting to come in and use the opportunity and came in. And not only in Iran trained, as I said, in different places. I even saw just walking in there was a report which I was not aware of, so I'm just quoting from the news, quoting from you that our head of intelligence in a briefing to the Israeli Committee of Security, parliamentary committee, mentioned people who self-affiliate themselves with al-Qaida, and they differentiate between people went by al-Qaida to people who identify as affiliates of al-Qaida and have also come in to Gaza lately.

So it's in the trained people and it's in the equipment and weapons that is smuggled or transferred inside, in addition to the money.

Q: If I understood what you were saying earlier, this situation is developing into the same kind of battle array that you met in southern Lebanon. The same problem?

A: Same and different. It's the same in the sense that you have an offensive capacity of rockets and missiles, a growing range to have input to terrorize hundreds of thousands of innocent civilians. And defensive capacity that would make it more difficult for whoever wants to deal with this threat by digging down the ground by having mines, by having anti-tank and armored vehicle missiles, which was very similar to the Hezbollah model in Lebanon. They had one unit that was responsible for the attack and another unit responsible to prevent or try to prevent Israeli forces or make it more difficult for Israeli forces to get to the [protectors].

So in this sense it's quite similar. It's similar in the sense that it is used for almost the same purposes. One is to gain control over our society. That's the purpose for Hezbollah, that's the purpose for Hamas. It is used to pose a threat toward Israel and it's used as a long-range arm for Iran and to an extent to Syria. So this is yet another similarity in terms of the strategic nature of this threat.

There is a difference because Gaza is an extremely populated area so from a tactical standpoint operating vis-à-vis Gaza is very different from operating in southern Lebanon. And it's true that even in Lebanon they were a lot shooting from within villages, but Gaza is one large village, if you want. So technically it will make a difference and does make a difference in terms of what it means to potential action.

Q: Mr. Ambassador, let's turn back to your number one with the bullets, Iran. Iran keeps coming up in all of your answers. Several months ago the United States seemed to be on the verge of war almost with Iran, and then that went away very quickly. It went away as

things vis-à-vis the United States and Iraq and Iran began getting better. Yet Iran continues apace on several fronts to develop nuclear capability.

Is the U.S. being deluded here because we're being treated nicely by Iran and Iraq while missing the bigger threat?

A: The Iranian threat is growing. I think by all accounts. I think nobody in his right mind looking at where Iran is today versus where Iran was two years ago suggests that they are not more advanced today to a capacity to have nuclear military capacity than they were two years ago. I think this is clear in America, I think it's clear in Europe. I cannot say much about other countries. I hope it is getting clear in other countries as well, but I'm not certain about it.

I did not sense any change in the severity, of assessing the severity of the threat by the U.S. government. In every discussion we have, and we have many discussions, this is considered by all an extremely serious threat. Not only to Israel. Not only even to the Middle East region which may have implications of very high magnitude. But free world. Iran is not North Korea. Iran has the ambitions to impact on the world and to change world order. One of the ways they are using in order to gain hegemony within the Moslem world is by confronting the West. And they have and are exporting terror and the combination of terror and nuclear could be lethal. Let alone the indirect impact of proliferation.

So I have not seen, directly to your question, any diminishing in the assessment in America of the severity of the Iranian threat. The issue is that in order to have a chance that Iran would reconsider their policy, two things need to happen if you want to avoid the Sarkozy juncture of either bombing Iran or having Iran with a bomb which is to mount a very serious pressure, economically, largely on Iran, and at the same time make sure that the Iranians and [inaudible], that at the end the world will allow them to have a nuclear weapon and thus they should be convinced that all options are really on the table.

The pressure economically started mounting. I think the way the NIE has been perceived, may be presented, created a concern to all of us that this would, could create an impediment in the so-essential pressure building on Iran. As we've seen the pressure building, and I can give you examples how it is building. How more than 40 banks in the world severed relationship with Iran; how the majority of branches of Western banks in Iran have been closed; how major companies have decided to stop investing in Iran, especially in the oil and the gasoline arena or reconsider; how the Iranians need to move their reserves from Europe and look for haven in other places; how import to Iran has become more costly in terms of time and money; and how the Iranian economy is reacting with showing some difficulties.

After the NIE, I cannot say as a result of the NIE, but at least sequentially after the NIE there was a concern that the steam would go away. We were waiting now for maybe

three more months for Security Council Resolution. The issue of European sanctions has been delayed.

Accidentally or not accidentally, I cannot tell, but two weeks after the NIE the Russians decided to supply the fuel to Bushir. Their companies who have suspended letters of intent of businesses with Iran brought it back to the table to negotiations. So we were concerned that obviously with no intention the way it has been read could create a devastating effect on the only chance that we had to be able to convince or impress on the Iranians to change course without the need to use another option.

We hope now that this can be restored. We hope that this week there will be a third resolution in the Security Council. We hope that after the resolution the Europeans will go back to consider European sanctions. We hope that America and other countries will continue to take action of this kind. We certainly hope that the business sector, financial sector worldwide will act responsibly, but financially and morally, and continue and build up the pressure on Iran. We hope this would register.

I cannot promise anybody that this would eventually be enough. We hope there is a chance. We definitely prefer this to work. And we're investing much of our political energy, if you want, in order to cooperate with countries in this direction. And as I said, at the same time as important is to make sure that Iran understands that no option is removed off the table. That these are not just empty words but there is something to back those words. And no matter what, the world will not allow Iran to have a nuclear weapon.

Q: Are you pleased with the pace of the pressure buildup? Do you think it's going fast enough, or might they win the race?

A: I'm not pleased. We appreciate the buildup. We think that the window is narrow. It doesn't matter if you take the more severest [inaudible] of the NIE which is early '10 or the middle which is '12 or '13. We're talking just behind the corner.

There was a European report of the European Special Commission that examined it and they came I think just three days ago with a report that they could have enough material for a bomb between '09 and '10.

So we are talking about a very narrow window and the writing is on the wall. And if they are not stopped we will leave our children with a nightmare and with so danger genies out of the bottle with no recipe, any recipe, how to bring them back into the bottle.

It's like many people in Israel, and I think it is important that many people in the world without making direct comparisons should act with a [inaudible] responsibility that should have been applied in the '30s. There is a major threat coming at us. It is a threat both to the Jewish people and to the entire Western world. The writing is on the wall. Like in the '30s, it's not hidden, it is stated. Everybody who doesn't close his eyes can see

it. Everybody who is not deaf can hear it. And the world should act and act now and not repeat the terrible mistakes that have been made in the past.

Q: I'd like to focus in on U.S.-Israeli missile defense cooperation. This year Congress has added a lot of money for the Arrow system, among others. I'm wondering what you see as the end state of Israeli participation in the U.S. missile defense shield, and also does your government have confidence that this type of shield has the capability to protect you from the threat that we've been discussing?

A: Let me start from the end. Our assumption is that we need to prevent this threat from emerging. We don't think that one needs to wait for it to come above our heads and then see if we can intercept it or not. So our focus is not only on how to deal with this threat if we fail to stop it, our major focus is how to prevent this threat from being realized.

Second, you have to look at it I think in a strategic context. The enemies, if you want, of America and of Israel have found a niche in which they may have some advantage which is a combination of rockets and missiles that can indiscriminately terrorize civilian populations and strategic assets. I think about certain localities in the Gulf, for example. And at the same time use human beings as almost weapons of mass destruction with this phenomenon of a suicide bomber which is almost indeterrable.

So many of the tools we had in our box were not optimum to deal with these new threats. For example, for Israel deterrence was a key element in our defense posture vis-à-vis Arab countries which was quite successful. If you look at the pace, origin of attacks against Israel in the early days it was '48, '56, '67 and '73 and we haven't had since then, which is now 35 years a major conventional attack, any conventional attack against Israel. So this deterrence did work against those kinds of attacks. But at the same time they did develop the rocket missile element and terror.

The way to deal with this is very complex. It's not easy. There is no one solution. It's a combination of much better intelligence. You really need to be able to get to very few people in different places. It's not about understanding how the Army operates. And where the control and command is, you take this and you have 50 percent of the job done.

Secondly, you have to be able to use this intelligence to hit them before they hit you which I think we are doing quite successfully.

Thirdly, you have to deter countries that are still deterrable who otherwise would turn a blind eye on terror, if not directly support it. There have been too many countries that were happy to do it.

Lastly, you have to enhance your difference, which was very much against the Israeli doctrine until recently. Given the size of Israel we could not really do anything that was leaning towards difference. Difference was not an option for Israel. Against terror and

rockets, difference is not the answer but it is part of if you want an incomplete answer. And in this there are two major elements. One is defense, which is a major investment which is all defensive which makes it more difficult for people physically to move into Israel with terror devices; and it's trying to create a multi-layer shield above Israel.

Here we have basically three layers that we are developing. The upper one is the Arrow and could develop to more advanced Arrow in the future, and/or maybe integrate in some way with other systems currently deployed or in development with the United States. To have as many options possible to intercept an incoming missile from afar.

We have the middle layer which for America will be short range layer. I try to convert it to miles, so let's say 20 to 120 miles. Or maybe 20 to 100 miles, maybe even 130 miles. Which is rockets aimed at us from Hezbollah in Lebanon, from Syria, could in the future from Gaza, and there is a major joint development between the U.S. and Israel to develop and then produce a system that will be able to protect from this kind of attack. These are the rockets that could reach every city of Israel including Jerusalem, Tel Aviv and other cities from both Lebanon, Syria and Gaza. And hit the heart of the country in terms of population, economic activity, command and control and the like. So this is already a project that is underway, cooperation between and American company and an Israeli company. I think largely Israeli-based R&D, but developed and I assume will be produced in cooperation with the support of the American government. It's a joint venture.

And there is the lower tier which is I would say zero, but there is no way to intercept 0.1 so some people think now in terms of four to five kilometers to 40 kilometers which is extremely challenging scientifically or technologically because you have a very limited time to first have the warning and identify and discriminate and hit. Because the flying time is very short. So this is something that we are working on now very hard in Israel.

Will this bring about zero [leakage]? It won't. Will it, if successful, make the calculus of the other side different in terms of whether they should invest so much if only ten percent get through and they may pay the price in terms of Israeli reaction for, as if 100 percent were successful. It's a question. This is why I'm not telling you it's the only difference. It will still have to be a combination of offense and deterrence against those who can support and regional cooperation, but including difference. So we are working on these areas very very seriously.

Q: On missile defense, of course the U.S. is attempting to get a ground-based mid-course defense, ballistic missile defense system in Europe to protect against Iranian missiles. Do you have any confidence and would you like it if it could also defend against Iranian missiles directed not just at Europe but also at Israel?

Secondly --

Q: Let him answer that one first.

A: First of all, taking seriously the Iranian threat of missiles with different warheads, and by the way, even if they are conventional warheads. We've seen what Iraqi conventional warheads can do to a country in '91. Being there, it can shut an economy down. When you have only three missiles a day hitting Washington, D.C., not many people will go to work, not many parents will send their kids to school, so you don't have to get, the missile in and of themselves, whichever, it can create a major threat.

I think it's very important to get ready for that. I am not sure whether this very system is being discussed between America and European allies would be sufficiently relevant for the defense of Israel because of the flying route in terms of other technical attributes. But we are in close cooperation with the United States on every option that may be possible in order to see how we can together help protect from missile threat emerging from this area of the world.

Q: Hezbollah leader [Imaniyah] was recently killed in Syria and Hezbollah has accused Israel, Israel has denied. And recently Mike McConnell was mentioning the fact that it might have been an internal affair within Hezbollah or also come from Syria. What is your assessment on that?

A: I would prefer not to make an assessment.

Q: You have absolutely no comment with regard to, even to Mr. McConnell's --

A: We are listening carefully to everybody's assessment. I would prefer not to make an assessment on my own.

Q: One or perhaps two lightning fast [inaudible] if I may. You talked very eloquently about [inaudible] pace of action against Iran and you said [inaudible]. In fact we've seen the most IAEA report that they're working on a new generation of centrifuges and are deploying them while [inaudible] enrichment. Yet on the other hand, this administration now no longer has direct rhetoric [inaudible], you no longer hear from people in the administration that this is not a problem [inaudible]. You don't hear that. You heard that six months ago. You heard that in previous years.

Is that a worry for you, that they no longer rule out just passing the [ball] on this one?

A: First of all, this administration is very active on trying to convince everybody to join America in building pressure against Iran. They are investing a lot of effort in that in different branches or in different arms of the administration from State, Treasury, the White House -- I doubt there is a country in the world that has not heard America loud and clear on this issue. I can tell you that because there is hardly a country in the world, except for those that still don't talk to us, who did not hear Israeli voice of this. So we are making the same visits, obviously. The American economy is slightly more [inaudible] in terms of how it's going to impact on decisions of potential partners.

So no, I'm not concerned that America is not making a major effort. I think it's critical that the Iranians see as serious, the world is keeping the options on the table. I don't think it's necessarily a matter of rhetoric. The question is at the end of the day what the Iranians are thinking about it.

I think the problem is not in America. The problem is in different countries in the world who are too slow [inaudible]. And if you want to be able to, you don't need the entire world to have a military action against Iran. Nobody in the entire world ever made, had no other choice but to consider it. But you need much of the world in order for diplomatic, economic, non-military option to work. And you can see players in Europe are too slow to react. You can see action by the Russians who in my view are not constructive if one wants to convince your adversaries this is the wrong path. China may be too slow to react. And in other places. We would love to see Arab countries, especially the Gulf countries who are sharing with everybody privately that this is a major threat, join America in using their own economic levers in order to bring about more pressure on Iran.

So to the question, we are thankful every day as people living on this planet that there is a country like America that [inaudible] act for more than the immediate and for the future of the world. We are frustrated that there are many in the world that are too slow to join.

Q: Capability. I have a U.S. capabilities question. The Joint Strike Fighter, what are Israel's requirements at this moment for that airplane? I was talking to the program manager a couple of weeks ago and he said that he expects a letter of request from Israel by the end of the year for possibly up to 100 airplanes. Can you shed some light on that?

A: Not really. You have an advantage over me because I have not talked to the program manager yet. We are obviously interested. We are in in-depth discussions with the administration on this matter. And if I had to guess, this has a high potential of resulting in a significant deal at the end. But I cannot tell you exactly how many and what configuration and when.

Q: One follow-up. A couple of years ago there was the issue of export control violations, suspicions that Israel was not [inaudible]. Your country was excluded from getting information from that program for a number of months. Has that issue been solved now?

A: I think the issue, if you hear American officials, I think they are more important to listen to on this matter than to me. But if you ask me, we hear from American officials that they deeply appreciate the major progress that has been done in Israel. We passed a law, we have created a mechanism to improve our control systems, and the spirit of cooperation between America and Israel -- by the way, on technological issues and other issues -- is very good and very extensive and very wide and deep. It is almost beyond

belief to see in so many areas which kind of cooperation there is between our two countries. We talk allies under the term [inaudible], on every or almost every strategic issue that is facing America and is facing Israel, and we face the same challenges. There is such deep cooperation which the IAEA cannot catch, but it is extremely impressive.

Q: You mentioned your layered missile defense from David's sling at the bottom end up to the Arrow.

A: David's sling is not the bottom. David's sling is the middle.

Q: If you have --

A: You don't see short of 40 kilometers. We have to live with it. David's sling is 40 up and we have another layer that we have to deal with on a daily basis.

Q: If the Arabs are able, and they seem able, to get ahold of not hundreds, thousands of missiles and rockets as they did before from South Lebanon, and they're firing these into Israel, if you use an interceptor to knock each one down, can this run into an enormous cost, financial burden for Israel?

A: The answer is yes. The short one.

First of all, they will have, first they do have. If you take Syria and Lebanon, thousand is an underestimate, a serious underestimate in terms of the number of rockets and missiles targeted at Israel. And there is a buildup in Gaza. And with the explosives, if you want, what was the strategic leap that Hamas did in terms of rocket firing capacity after this engagement. They could smuggle high quality explosives which allows them to store rockets. Before, they had low grade explosives which were expired in terms of their ability to use them after weeks or months. Now they can store for many years and they can just build the storage, like Hezbollah, of hundreds if not thousands to prepare for an attack when it suits them and not fire what they used to do before recently which was maybe five a day, and not 16 a day as they do now, but 100 a day or 200 a day, depending on their choice.

So yes, our scenario, unfortunately, is that we would have to deal with many incoming rockets and missiles. Will it make an unbelievable burden on Israel's economy to have enough interceptors? And by the way, develop the technology to deal with so many incoming missiles at the same time. As I said, this is a shorter and maybe better. The answer is yes.

The question is, what are the alternatives that you have?

Q: One of the [inaudible] relationship [inaudible] prospects for any [inaudible] peace and whether the disturbance in Gaza will slow the negotiations [inaudible]?

When you say, one of the things you [inaudible] you said [inaudible] to do the work themselves the more difficult it becomes to [inaudible] implement an agreement in Gaza. Does that mean the longer the situation that currently applies goes on, the less likely it is to wherever [inaudible]? There's actually a time limit [inaudible] Gaza [inaudible].

A: Start from the end. The effort we are doing now with the Palestinians is to reach a two-state solution [inaudible] a three state solution. So while the Palestinians claim that there should be one Palestinian state that is controlling both the West Bank or parts of the West Bank and Gaza, there can be separation in terms of the responsibility. If you are serious and you really want to get to a state, responsibility will come with it.

However, I would like to just make clear what process we are now. We are in a negotiating process to reach an agreement on a two state solution with a clear understanding between us and the Palestinians that this agreement will not be implemented until the conditions on the ground would allow for that to be implemented. We have separated [inaudible] process from conditions on the ground and negotiations, and if you want, if sequence of the [inaudible] before was first change conditions on the ground, then negotiate, then implement, the sequence now could be negotiate in parallel, change situation on the ground, continue to change situation on the ground, and only then implement.

The first bottleneck is not Gaza. The first bottleneck is the situation on the ground in the West Bank. It will take much effort on the Palestinians to really get control over their own society. As I said before, they are making efforts but they are very far from it. They will have to do much more. That creates a kind of capacity that would provide for services to the people, that would provide for law and order for their own people, that would be able to establish security and to prevent terror. There is no way, as I said before, Israel would allow a second Gaza in the West Bank, and everybody understands that.

I said we separated from negotiations and implementation of really changing the reality on the ground and building this capacity. However, there is some correlation, there could be some correlation theoretically because it would be easier, I assume, for the leadership on both sides to make the compromises when they see that the progress on the ground is really significant. That the implementation is a foreseeable future and not up in the air.

So there is, it's not conditioning, but there is an environmental, if you want, could be influence of how fast things move on the ground and the ability of leadership to compromise.

We certainly hope that the Palestinians will do what needs to be done in order to improve conditions on the ground. Israel has made a strategic decision, extremely painful, engages in redefining the very narrative of Israel, engaging a risk of tearing the

society apart. But we've made the decision because we have already saw an historic compromise for two states. This would be two homelands for the two people. For that to happen the Palestinians will have to be ready to make equal compromises of historic magnitude and at the same time build a capacity to be a state. And if you want, divorce from [inaudible]. And assume responsibility in order to be in a position to have statehood.

Q: Thank you very much.

END TEXT