

**Prime Minister Benjamin Netanyahu's Address to the Council on Foreign Relations
July 8, 2010**

Thank you all for giving me the opportunity to spend some time discussing the urgent problems of the day. I'm delighted that I have a very robust delegation with me here today, Ambassador Michael Oren, Ambassador Gabriela Shalev, Ambassador Asaf Shariv my own delegation, Dr. Uzi Arad and Ron Dermer, and all those who are here today.

We had a good day in Washington. I told the Oval Office that the reports of the demise of the U.S.-Israel special relationship are not only premature, but they're wrong. Now, they're wrong not simply because of the unbreakable bond between our two countries. It's a bond anchored in shared values, democracy being chief among them, and shared interests. It's a bond that transcends the differences of opinion our two governments might have from time to time. They're wrong because in the past year, most of those differences of opinion have focused on how to best move the peace process forward, but not about the goal of moving them forward. We sometimes disagree on how to best achieve the renewal of the peace process, but we share a fervent desire to do so as speedily as possible.

So I think there's a much greater meeting of the minds between President Obama and me on how to move forward at this time, how to make the transition from proximity talks into direct talks, and how to ensure that those direct talks are as substantive as possible and as soon as possible. I think that this delay does not get us any benefit. I think delaying the process, talking about talking, making conditions about getting into talks is a big mistake. I think it's cost us about a year, and I don't think it should cost us any more time.

Both sides have grievances, and we have grievances too. For example, the Palestinians call public squares in honor of terrorists, including the most recent. I can say, well, until they rename these squares, I won't get into the talks. That can cost us a lot of time. I think that the right thing is to move directly into peace talks as soon as possible. That's the only way that this thing is going to be resolved, and it needs a resolution.

The substance of peace is a solution of two states for two peoples, in which a de-militarized Palestinian state recognizes the Jewish state of Israel. This vision is anchored in two core principles, security and legitimacy. Security sounds obvious; it's been around for a long time, but the nature of the challenge of security has changed. When the Oslo talks began, we launched the Israeli-Palestinian peace talks, there were two things that were present, The first is the rise of Iran and its proxies, and the second is the rise of missile and rocket warfare.

These two new developments pose a significant problem for Israel. We are asked to prepare to vacate territories for this type of peace. We have just done that twice. Once in Lebanon, and the areas that we vacated were very quickly taken over by Iran's proxies, which poured rockets and missiles into them, which were later fired on us.

The second time was in Gaza, we vacated every last inch of Gaza. And that area was quickly taken over by Iran's proxies. They poured missiles and rockets into them, and they were soon fired into Israel - 12,000 rockets and missiles in total, in an area, I think, slightly smaller than New Jersey. Now, think about that - that's a real problem.

Now, if we're going to have a third withdrawal, we must address the question of how to prevent this from occurring a third time. Strike one, strike two, third strike you're out. In the case of Israel, it is a palpable strategic threat because our cities are targeted, our airfields are targeted, our military installations are targeted. We have to have a real solution to this, not a solution on paper, but a solution on the ground that actually prevents the mass smuggling of rockets, missiles and other weaponry into the areas that we vacate.

This is a significant challenge. I spent a great deal of time speaking to President Obama about it in a serious way. I think he understands the full seriousness of this challenge. And I think that we're committed, both of us, to try to find a realistic concrete solution to this issue - security, number one.

Secondly, the question of legitimacy. I think the solution of legitimacy means that we recognize the Palestinian state as the nation-state of the Palestinian people, and they recognize Israel as the nation-state of the Jewish people. There is an implication about their recognition of us. It is that they prepare their people and themselves, the leadership, for the idea that the conflict is actually over.

That the Palestinian state is not a stepping stone to continue the conflict by other means, but it is an end to the conflict. An end to the claims of conflict: for example, the two most salient issues of legitimacy and ending the conflict revolve around the Palestinian refugees. Israel absorbs and has absorbed the Jewish refugees from the 1948 war, and from other parts of the world. The Palestinians accept the Palestinians refugees - the Palestinian state.

But equally, there are no demands, no irredentist demands of Israel's Arab citizens. Their rights are fully guaranteed as individual rights, full civic equality in Israel, as is the case. And there are no demands for another separate state in the Galilee or in the Negev or autonomous regions.

In other words, this issue is resolved here and now. Sadat, the late Egyptian president said when he came to Jerusalem, he said, no more war, no more bloodshed. And what we expect President Mahmoud Abbas to say is, no more conflicts, no more claims, no more demands. Israelis are prepared to go a very long way. And I'm prepared to lead them a very long way to make peace.

But this has to be a real peace - secure and an end to conflict. These are the two principal goals, or the two principal pillars of peace that I put forward in my speech in Bar Ilan. That was one of the things that we did. We also removed hundreds, many hundreds of roadblocks, of checkpoints, earth ramps to facilitate movement in the Palestinian areas.

There is sort of an economic miracle in the Palestinian areas. The Palestinian leadership has been doing important things there. But they would have come to naught if we hadn't changed the policies. Because you can't have a robust economic and commercial growth if you can't move goods and people. It's just impossible.

And we facilitated them, and we changed it overnight. Not as a substitute for a political peace, but as a facilitator. The economic peace that I've spoken about that has come to pass is a very good supporter of a political peace.

And the third thing we did was actually, to do something that is unprecedented. I'm using the Secretary of State Hillary Clinton's words. I decided, unlike any previous government, to freeze the construction in new settlements for a 10-month period to

encourage the Palestinians to enter the peace talks. So far, seven months have passed. They haven't come in.

They should come in. They should have come in yesterday. They should have come in 12 months ago, seven months ago. But we should not waste any time.

While we did this, Palestinians advanced the Goldstone report in the ICC. They tried to prevent, unsuccessfully I'm happy to say, our entry into the OECD. But despite these and other political pressures, it was accepted into the club - the big club. We still have to get to the G20, that will take some time.

But the accession to the OECD is a great tribute to the Israeli economy. And to all the continuing problems of incitement, I don't think we should linger on this. I don't think they should linger on us. I think we should seize the moment. And it's a challenging moment and an important one when we have the ability to negotiate a peace.

We don't know where the pieces in the Middle East will move in the coming years. We don't know that. There is a great challenge from Iran. There is movement in Turkey. There is today stability in Egypt. I think we should use this moment to advance the peace, and I'm prepared to do it.

There is risk in doing that. That's what leaders do, they take risks. You mentioned the economy. I corrected some deficiencies in the Israeli economy; believe me, I took some risks. By the way, I was smart enough to do it young enough because you lose elections after that, and it allows you to come back.

But you come back. The only three people who came back a second time to govern Israel - one of them was David Ben-Gurion, the other was Yitzhak Rabin, and I'm the third. When you get to be at my advanced age, you don't come back to spend time in office. It's not that pleasant anyway.

You come back to do something. I'm prepared to do something, and I'm prepared to take risks. I won't take risks with our security, but I'm willing to take political risks. So does President Mahmoud Abbas - he must be prepared to take these risks. And I know that President Obama is willing to assist us in this. He has credibility in the Arab world; it's important. This is an asset that can be used, but we have to get on with it.

We should just stop all the delays, stop all the preconditions, stop all the pretexts and start now, next week, in two weeks. Get the talks going. Because only if we start them can we complete them.

I think people talk about a bottom-up process, but we talked about the economy and the top-down political process. In my view, the top down part of that equation can only be handled from the very top. It can only be done by the leaders themselves. You can't just have the leaders show up for the ribbon cutting ceremonies.

It won't happen by forming dozens of committees and holding countless meetings. I think that's actually not productive. I can tell you all the decisions I've made on changing things inside Israel, I've always had to participate in them and you just have to get on with it, and grapple with the issues directly. There is no other way. And this is what, I'll say for the last time, what is required now.

Now I know there is a lot of skepticism. After 17 years, since the beginning of the Oslo process, skepticism is certainly warranted. But remember that moment when

Sadat came to Jerusalem. Remember that only a few years earlier, Egypt and Israel had fought a terrible war.

People dismissed Begin and they dismissed Sadat. You should read the mountains of skeptical print that were written about them. I intend to confound the critics and the skeptics. I need a partner. You can't go on a trapeze, hold out your hand, and not have a partner on the other side. You have to have that.

So this is one great challenge that we face today that I feel we're up to it, and I feel the moment has arrived: the making of an Israeli-Palestinian peace that our people yearn for, pray for, that could bring untold benefits. You're already seeing part of that before we have a formal peace in the West Bank.

And you can posit a lot of things that can happen in the region. Israel is a great economic engine, a fount of creativity. It's probably the most innovative - I don't think there's a more innovative society on earth, a more innovative economy. And we can unleash those forces. We have internally. We can do this in the region and we can bring a different life, a different reality to our children, the Palestinian children, and the other peoples of the region who choose to partake in this vision of peace with us.

But there is another challenge. It's a great one. I've been talking about it for many years. Fourteen years ago, when I came to the United States, shortly after I was first elected prime minister, I was given the honor of addressing the joint session of the U.S. Congress. And I said then that the greatest danger facing the world was a threat of Iran developing nuclear weapons. I can tell you that quite a few eyebrows were raised at the time. Far fewer are raised today. There is now a broader, and I would argue, a deeper understanding of the potential dangers of a nuclear-armed Iran. You hear it in Europe. You hear it in just about every private conversation that I or my staff have with Arab leaders and Arab officials, almost every single one. There is just about no exception.

All of these leaders understand that Iran is not merely a threat to Israel, a nuclear-armed Iran. They understand that if the world's greatest sponsor of terror gets the world's most dangerous weapon, it is a threat to the region and a threat to the entire world.

Now, the problem in historical circumstances is translating understanding into action. Actually, the problem in many catastrophic periods of history was that there was no understanding. That is a prelude to correct action. But once you have understanding, there's still that gap between what is understood to be required and what is done.

I spoke with the White House about the importance of the latest round of the U.N. Security Council resolutions against Iran, as well as the recent congressional sanctions bill signed by President Obama last week. These U.N. sanctions are important because they send a message to that regime that the international community, led by President Obama, stands firmly against Iran's nuclear program. The U.S. sanctions are important because they have more bite. And the sooner they're implemented and the more rigorously they're enforced, the more bite they will have. And I hope that other countries in Europe and elsewhere will follow with tough sanctions, particularly those that target Iran's energy sector. The regime is vitally dependent on that.

But I think that we cannot be sure that these sanctions will have the necessary effect of stopping Iran's nuclear program, and therefore I appreciated President Obama's statement that he is determined to prevent Iran from developing nuclear weapons and that all options are open.

I think to fully translate understanding into actions, we must address the question of whether the world can live with a nuclear Iran. For a lot of influential people, and I suppose for some of the people here today, a nuclear-armed Iran would certainly be a danger, but perhaps I think it wouldn't be a new danger. After all, the Soviets had nuclear weapons. They were contained. So, too, it is argued, a nuclear-armed Iran could be also contained.

But the Soviet Union is far different and was far different from what we see today in Iran. The Soviets certainly had global, ideological ambitions, but in international affairs, they acted with supreme rationality. Every time the Soviets were faced with a choice between their ideology and their survival, they chose survival: in Berlin, in Cuba and elsewhere. And to the best of my knowledge, there were not many Soviet suicide bombers.

The Iranian regime is different. They're driven by a militant ideology that is based on an entirely different set of values, a value system that may seem entirely irrational to us but is pervasive, very powerful, among those competing for leadership among the Islamic militants.

Look at what happened nearly a decade ago in another part of this militant world. The Taliban allowed al Qaeda, operating on its soil, to dispatch terrorists to bomb New York, this city, and to bomb Washington. Now, what were they thinking? Did they think that the greatest power in the world would simply ignore mass destruction in its cities? Did they think that the United States of America would ignore an attack on its financial center, on its military headquarters, on its capital city? Were they that stupid? Or were they instead driven not by cool reason but by a fiery fanaticism that overcomes normal logics?

Iran sends children into mine fields. Iran denies the Holocaust. Iran openly calls for Israel's destruction. Iran empowers Hizbullah with rockets and has overtaken half of Lebanon. Iran empowers Hamas with rockets, has overtaken Gaza and half of the Palestinian polity. Iran has sent saboteurs and terrorist squads into Egypt. Iran sends tentacles into the Yemen and threatens directly Saudi Arabia. Iran sends weapons into South America. This is what they do today when they don't have nuclear weapons. Think of what they will do tomorrow when they do have them.

It is very hard for modern men and women to come to terms with the role of irrationality in human affairs. We tend to think that people and states are driven solely by interests, by a sober calculation of cost and benefit. We must recognize that those who glorify death and those who dispatch hordes of suicide bombers are not driven by grievances which can be addressed or by a despair which can be alleviated.

We must recognize that there are wide-eyed true believers, even mad believers in the world. There are fanatics who subscribe to a twisted creed and they are willing to pay any price of its realization. And they are driven by a fervent hope that they will succeed at any price.

Shakespeare advises to see the method in the madness. But facing today's militants in the Greater Middle East, we should be well-advised to see the madness in the method -- to recognize that not everyone is constrained by the calculus of cost and benefit that has been associated with nuclear weapons; to recognize that some people, organizations and regimes might act in ways that no one has acted since the advent of the era of nuclear peace that has followed Hiroshima and Nagasaki. We must not allow the world's most dangerous regimes to possess the world's most dangerous weapons. This is the single greatest challenge of our time, and we must not fail to address it.

Thank you very much.

QUESTION AND ANSWER SESSION:

RICHARD HAASS: Thank you. I'd actually like to begin where you began, with the U.S.-Israeli relationship. I got a lot of e-mails before this meeting, particularly at the time of the Gaza flotilla incident, and several of them struck the theme that Israel now had become more of a strategic liability to the United States than a strategic asset. So my question is, how do you refute this? Particularly for Americans who have come of age since 1967 and see Israel more as a victor than a victim.

PM NETANYAHU: There are several questions in your question.

HAASS: I violated my own rule; I'm sorry.

PM NETANYAHU: Well, what politicians simply do is they choose one of the things they want to answer. But I can address all of them if you wish.

First of all, it's better to be a victor than a victim. If you're a victim - and this was the condition of the Jewish people for several thousand years; we were the perfect victims. We were always morally perfect. And the minute you enter the stage of history and you actually have a state and you have to defend yourselves against rocketeers and they're embedded in civilian populations and you try to seek them out, and you do perhaps less than 1 percent of the damage done by another democracy, Britain, when it tried to respond to rocketeers on its cities, you're still held to an impossible standard, what I call the triple standard. There's one standard for the democracies - sorry, one standard for the dictatorships, they have their own standard; one standard for the democracies; and there's still a third standard for the democracy called Israel. So the only thing that I could say is we can put forward the truth of our case.

We're the only country threatened with annihilation. We're the only country which has been rocketed by thousands of rockets and suicide bombers and attacked by sundry other means. We seek a genuine peace. We showed that. We were willing to make concessions for peace that no victor in any war has done, and we're ready to make those concessions - far-reaching concessions - today. And the only, the best way to test that is to actually trust us, to actually get into those negotiations. So that's the first part.

The second question you asked is Israel's - not its moral position but its utility, strategic utility. The most unstable part of the world begins west of India and stops somewhere in North Africa. There is a landmass there that is highly unstable, that has radical regimes bent on acquiring nuclear weapons, atomic bombs. They are failed states; they are failed pre-states. It's a large swath of shifting sand.

Within that, I would argue that there are several forces of stability, and I would say that in the heart of the Middle East Israel is the source of the greatest stability. I know this flies in the face of people. The only way I can prove that to you is in a way that I won't. You just imagine what would happen if we weren't there. What would happen to some of our neighbors - I won't spell it out - large neighbors, small neighbors?

Israel stops the brunt of an attack that is directed at some of our Arab neighbors and directed at others beyond the Middle East. And I think that if it weren't for Israel, a lot of that area would have been swept away by radical forces long ago. So I would argue that we provide an important strategic service.

That is understood in ways that I can't elaborate by the daily, sometimes hourly, sharing of intelligence between our intelligence services, security cooperation that is enormously valuable. It's very valuable for us. I think I can safely say that it's very important for the United States - and by the way, for other countries. I was going to say Western countries, but that would be an incomplete statement, because we also share important assets with non-Western countries, and quite a few of them.

So the service that Israel does in the Middle East - below the swirl of public debate is real and much appreciated by the governments that are actually acting to stabilize the Middle East, chief among them the United States.

And this was very much reflected in my conversation with President Obama, both in his public statements but also in our private discourse.

HAASS: Let me turn to the so-called peace process. As you yourself noted, the Israelis' moratorium on settlement construction runs out in less than three months. What would persuade you and your government to extend it?

PM NETANYAHU: The settlement issue was supposed to be a final-status issue from the start; it was - along with security, with the question of territory, borders, Jerusalem, refugees, water. These are the principal issues that need to be discussed in the final-status issue.

I did, as I said, something quite unprecedented. I actually did this temporary freeze as an inducement to enter the talks. Now, seven months into this 10-month moratorium, the Palestinians have not yet come in, but they already argue, well, you got to extend that gesture. And I think the right thing to do is just get into the talks. This is how we'll resolve this issue of settlements, by actually having the talks and not by constantly pulling and trying to engage in this one-upmanship that has been directed at Israel.

I think we've shown our good faith. No other government has done that. And by the way, no one was asked to do it.

I have to tell you, through the years of Oslo, the 17 years of Oslo, there was never any precondition - not settlements, any precondition placed on talks.

And on day one when I formed my government, I called on Abu Mazen, President Abu Mazen, to come and sit down. And on day one, we had the beginning, the cascade of preconditions that kept on growing and growing and growing. And I think this is just wrong.

Look, nobody is going to deliver an agreement or a settlement to the Palestinians from the outside. If they're waiting for that, I think it's a big mistake. They have to come in and negotiate this. And we're prepared to talk about everything. We'll have our positions. They'll have their positions.

But at the end of the day, I think it's only when you sit down, mesh all these issues together and show the Palestinian people and the people of Israel, here's an agreement to end the conflict and to ensure security - it's going to be very painful, it's

not going to be easy - by the way not only for the Israeli side, for the Palestinian side - then actually have to come and tell their people, as I said, it's over.

But that's the way this thing is going to end. So I would say, I think we've done enough. Let's get on with the talks.

HAASS: You said that Barack Obama, I think your words was, was ready to assist. What would you like his role and the American role to be if, for example, we can get direct negotiations started between Israelis and Palestinians?

What would you like us to do? What would you like us not to do?

PM NETANYAHU: Every peace negotiation that we've had involved the assistance of the United States.

The Camp David breakthrough talks between Egypt and Israel, the Oslo Accords, the talks that I held, the Hebron agreement, the Wye agreement, peace with Jordan - it always involved American support.

The United States is a great mediator, a great facilitator. There are problems, practical problems that we'll need help - by the way, not only from the United States, from the international community.

I gave you one example that you don't tend to think about: water. Water, unlike land, has one advantage. You can make more of it. You can make more water. You can desalinate water. But it's expensive. And we're going to need it. We're going to need it anyway, if we didn't make peace. But if we make peace, we're going to need it more.

And as our GDP per capita grows, water consumption grows. It's growing in Israel, it's growing in the Palestinian areas. You probably need a regional approach anyway, because this is a problem that is afflicting the region. You'll certainly need international help there. Some countries can help with the refugees, some countries can help with water. The United States can help with everything, including political mediation when certain hardships will arise. They will arise.

But the United States can help with one other thing. It can help address some of our most pressing security problems. Some of them can be addressed by advanced technology. And I think American willingness and cooperation in this matter is there. And it's vitally important for the achievement of success.

HAASS: I've just got two more questions, then I'll open it up.

Imagine that you and Mahmoud Abbas have a negotiation on the West Bank and it succeeds; you make tremendous progress. How would you think about dealing at one in the same time with the challenge of Gaza and Hamas?

PM NETANYAHU: This is a big problem. It could hinder negotiations. We could say we won't proceed until we solve the Gaza problem, which probably means we'll be hindered for a long time. Or we can recognize that we have a hostile element there - it's a hostile beachhead. It's an Iranian beachhead that is opposed to peace, opposed to recognition of Israel, sponsors terror. We'll have to - think about it as it is, think about what it could be and try to see how we work together to make that transformation.

But I think it'll be unrealistic for us to assume that - A, to say that it's not there, we shouldn't address it, or to say unless it is resolved, we don't move forward. I'm saying either position, I think, is wrong.

I think we should move towards a negotiated peace between us and the Palestinian Authority and take the proper precautions against what can flow from Gaza.

HAASS: It would also provide some avenue or opportunity for Gazans to opt in if they met certain criteria?

PM NETANYAHU: If they could, believe me, they'd throw Hamas out today. Hamas would lose an election like that. But it doesn't really give the people of Gaza any option - any more than the Iranian regime gives the people of Iran any option. If they want to exercise the option, they shoot them down on the sidewalks, that this girl lies choking in her blood. That's how Hamas governs. It doesn't really allow any freedom.

If there were a change - if the people of Gaza, the Palestinian people there, could choose, I have no doubt they would choose the route of moderation and of peace and of prosperity, which you see beginning in the West Bank, but they're not really given a choice. How we help them have that choice is a good subject for discussion. I'm not sure should be held here.

HAASS: You gave me a natural segue into Iran. You were articulate about the risks and costs of living with an Iran with nuclear weapons, how - not just from the nuclear point of view, but how it could essentially become a backdrop to an even more assertive or aggressive Iranian policy around the region. What about the risks and costs of using military force to prevent it if sanctions don't work? Do you worry about Iranian retaliation? Do you worry about what Hizbullah, Hamas might do? Do you worry that it could set back the prospects for political change, for democratic change in Iran?

PM NETANYAHU: Well, look. Obviously we hope that it's possible to stop Iran's programs by this U.S.-led effort to put maximum pressure. It so happens that the statement that the president has made that all options are on the table is probably the most effective pressure that you could direct at Iran. And I wouldn't say any more than that. I think that's ultimately what they look at.

And they have in the past, as you know, backed off when they thought that the U.S. would act in a more forceful way. You know what happened the only time that the Iranian program was held back, very briefly, was when they had that concern, as you know. So I wouldn't change the statement made by the president. I think that would be a mistake.

HAASS: Okay.

Let me open up. And again, I ask you to wait for a microphone, you identify yourself and your affiliation, and you limit yourself to one concise question and resist any temptation to speechify.

PM NETANYAHU: That you only leave to the speaker.

HAASS: Roger Hertog.

QUESTIONER: Mr. Prime Minister, I'd like to change the subject a little bit. The last couple of years, Israel's economic activity has been rather extraordinary versus the rest of the Western world. And I think it's fair to say that a lot of it is attributable to

your stint as finance minister during the prior regime. What's the next phase, in terms of Israeli strategy, in terms of tax, privatization, high-tech? How do you maintain this high rate of growth?

PM NETANYAHU: Well, the most important thing to understand - and global economy is something that I'm sure all of you understand - is that competition never ends. It never ends. If you run a company, you can't say: Well, I've achieved such-and-such achievement, such-and-such market share, and I can rest on my laurels and stop improving my product and services. And the same is true of economies, national economies that compete in the global economy. You can never stop improving yourself.

Now, how do you improve yourself? How do you produce growth, which is ultimately, the consequence of improvements - how do you produce growth if you are a \$30,000-per-capita economy? That's where Israel is today. We used to be a \$20,000-per-capita economy, now we're 30,000 (dollars-per-capita) - which is not the highest in the world, but it's getting there.

Well, if you're an economy starting out, and you've got about \$800-per-capita income, you can grow just by putting in roads, electrification, communication lines, whatever. You'll grow. No matter what you do, you'll grow. But if you're a \$30,000 or 40,000 economy - if you're a smaller, if you're a low-GDP per-capita economy, you'll grow at Asian rates, Chinese rates, Indian rates, 8 percent, 10 percent and even higher.

How do you grow at 4 or 5 percent consistently, which is what Israel has done over the past five, six years - how do you do that if you're a \$30,000-per-capita economy? And I maintain that there are only two ways to do that that I can see now. It could change, but I can see only two ways.

One is you've got to add value to your products and services, and the best way to do that is by technology. Israel has a lot of technology; we have to do certain things to make sure that our technological edge is maintained. But we have a very innovative society. We have thousands of startups, and we have to make sure that that continues.

There's a second thing that you can do, and it's not obvious. But if you're lucky enough to have an advanced economy with a messed-up bureaucracy, you have a growth opportunity. Because as you remove the bureaucratic hurdles, you're going to get extra growth for a time. It's like taking a steel boot on a cold spring and removing it, and while you're removing it, you grow. So while we're addressing the high-tech part of our economy, we're also addressing the low-tech part of our economy.

And I've just fought - I'm fighting right now a battle for the lowest of low-tech. It's called land, planning and zoning.

Construction permits. Israel is number one in the world in the penetration of personal computers into the homes. I'm happy to report to you that we're number 140 in the world in property registration - 120 in the world, 120 in the time it takes to get a building permit. It is virtually impossible to build anything in this country, in my country.

Now, why am I happy to report to you this? Because if we change that, we get an extra bounce of growth just for doing these bureaucratic corrections.

Now I said bureaucratic corrections. There's a lot of political capital that you have to fight to get it. And I don't want to take more of your time, but I'll just describe to you how difficult that is: 93 percent of the land in one of the world's smallest countries is controlled by a government monopoly. It's called the Israel Land Authority - 93 percent, okay? In America or Europe, it's probably 40 or 30 percent, government-owned land.

Now, I can't provide more land in order to have more construction unless we free this up. So I had a bill to reduce that number - by a very small amount, but significant.

I was challenged from the right that I was giving land to the Saudi sheikhs. What would they do with it? I don't know. They'd take it away. I was challenged from the left that I was giving it to my "fat cat" friends. I don't have any, by the way.

The voting came on this land-reform bill. And we started having the reading. And I have a very comfortable majority in the Knesset. It disappeared. Many of the Likud ministers weren't there. The Labor ministers weren't there. I stopped the vote, went down to my office in the Knesset and I issued a statement. And I said we're going to have another vote in 10 days. Any minister or deputy minister who doesn't come will be fired on the spot. In 10 days we had another vote. It passed with wondrous majorities.

These are advantages. The advantage you have in developed countries is that you can reform, if you have the political will and the political vision and are willing to spend, to spill political blood, you're on. You can pass these reforms and get extra years of growth. It's technology and basic structural reforms that produce the advantage for any country. That is what has produced the advantage for my country in the last decade, and this is what I hope to see in the coming decade. After that, you'll have to ask me; the world may change completely. We don't know. But this is what it is.

HAASS: Lots of hands. I can see already I'm going to disappoint people. Bob Lifton.

QUESTIONER: Mr. Prime Minister, you have stated your vision of a two-state solution, and inevitably with a Palestinian state, you will have to move some of the settlements, settlers, which may involve civil disobedience or even violence.

Do you feel you have the ideological support in your own coalition party to support that kind of solution? And do you feel that the Israeli public is prepared for that kind of solution?

PM NETANYAHU: I think the most important thing is to, first, try to define a clear vision of peace where people see the benefits of what it is they're getting. The second thing, I think, is to introduce a very important dimension for the implementation of this peace agreement, and that is the dimension of time. Time is a crucial element both for security and for other critical elements of a solution. It's a great facilitator of change. And if you build in a time factor to any type of solution that we have, I think it would help enormously. But the rest I'll leave to the negotiations that I intend to have with President Abbas. I'll be asking him on the Palestinian side even tougher questions than you asked me.

QUESTIONER: Mr. Prime Minister, if President Obama succeeds in getting you and Mr. Abbas to direct negotiations, it's obvious that you know the demands of Mr. Abbas, Mr. Abbas knows the Israeli requirements for peace. So if you have direct negotiations, do you think within a year we can have an agreement similar to what happened in '79 when President Sadat and Begin negotiated a peace agreement?

PM NETANYAHU: Yes, I do. Yes, I do.

HAASS: So you think he's both strong enough and also willing to make peace?

PM NETANYAHU: If it's up to me, we'll have an agreement. I can't speak for him, but I won't do what others do to me and I won't do what some of my colleagues do to President Abbas: I won't rule out the possibility of leadership. You have to be tested in real times, and the only way you'll change the reality is to bring a package, a total package - that is, a peace treaty that is anchored in security that gives a sufficient feeling of hope and comfort to both peoples, and they can actually see the totality.

Going at it piecemeal, piece by piece, piece by piece is - just to have a thousand cuts without seeing where this thing leads, that's more or less where we've been, and I think that's why it's failed. I think this is the alternative, and I'm prepared to pursue it.

And I hope to see President Abbas take that same choice. We're not youngsters anymore; you know, we have a certain responsibility to our peoples, to our children and grandchildren, the coming generation. This is what leaders are expected to do. And I think President Abbas can prove to be an important Palestinian leader that helps me, along with President Obama, reshape our future.

HAASS: Why is it so important? Because you mentioned it several times today that Palestinian leaders give up their goals. Why can't they secretly harbor a goal that Israel will disappear so long as they don't pursue those goals with violent means?

PM NETANYAHU: Because part of the change that is required - there's an asymmetry, asymmetry in the conflict, and it's important to understand it. The reason the conflict persists, the reason it hasn't been resolved these 60-some years, is because of the enduring engine of the conflict.

What is the true, underlying source of this conflict? It is not Israel's possession of the territories, even though it is widely held to be that issue. It's certainly an issue that has to be resolved, and I'm prepared to resolve it, but if you really understand the source of this conflict, it actually goes back to 1920. The first attack against the Jewish presence took place in 1920, and it continued in the 1930s, continued in the great upheavals; obviously, in 1948 in the combined Arab attack against the embryonic Jewish state; continued in the Fedayeen attacks in the 1950s, continued with the creation of the Fatah and the PLO before 1967.

So it actually ranged from 1920 till 1967. That's nearly 50 years before there was a single Israeli soldier in the territories in Judea, Samaria or the West Bank, before there was a single Israeli settlement. Why did it go on for half a century? Because there was an opposition to a Jewish sovereignty in any border, in any shape, in any form.

Now, you'd think that it was transformed - that is, that after 1967 the issue was the territories. And in many ways, the discussion about this issue changed the cause, the result of the conflict through its cause. The territories were a result, our presence in the territories was a result of these repeated attacks against us. We came into possession because of attacks against us. And we're prepared to negotiate a solution to this.

But having left territories - we left Gaza, every square inch. We were fired upon. We left Lebanon; we were fired upon, having been inside Lebanon. And when you ask the Hizbullah, why are you firing on Israel? They've left Lebanon. They say, well, we have

to liberate occupied Palestine. And you say - they were asked, you mean, the West Bank? They said, no, we mean the Galilee, we mean Tiberias, we mean Haifa, and so on.

When we left Gaza, and the Hamas fired these thousands of rockets into Israel, they said, they left Gaza, why are you firing? "Well, we have to liberate Palestine." Do you mean the West Bank? And they said, "No, we mean Ashdod, Ashkelon, Beersheba."

So the real engine of the conflict is the refusal, the persistent refusal, to recognize the Jewish state in any boundary, and unless this is addressed, it continues to take hold in the Palestinian psyche and it doesn't get resolved. And admittedly, if leaders begin to talk in this way, it doesn't guarantee that there will be a change of heart, but it's a necessary precondition for such a change; otherwise, it will never happen.

Now, the more moderate Palestinian Arab elements, they don't talk about liquidating Israel, they don't talk about firing rockets, and they're different from Hamas. But they don't say, we'll end the conflict. They don't say, Israel will be here to stay. They don't say, we recognize the Jewish state of Israel and it's over.

They say, we'll make peace. They'll say, we want an end to occupation. But they don't actually say it, because they're intimidated by Hamas or because they harbor secret wishes. They have to openly say it, not for our sake but for the sake of actually persuading their people to make the great psychological change for peace.

I've said it. I've stood before my people and before my constituency and I said what my vision of peace includes, and I did that not without some consequence, I can tell you that. But this is what leaders have to do. They have to educate their people. They have to actually say it the way it should be. And I don't think that the Palestinian leaders should be exempted from it.

Now, having said that, assuming they did that, let me carry your question to its conclusion and the conclusion of this discussion, I presume, because of the time that's running out. But let's say they said it, because I'm saying you can't expect us to make peace without security and without a clear recognition of the end of conflict and the acceptance of Israel as the nation-state of the Jews. Suppose they said that. Are we guaranteed that this will percolate down? Are we guaranteed that there won't be a rollback? Are we guaranteed that there won't be a regime change the way there was in Gaza? And the answer is, no, we're not.

So that doesn't nullify the need to say it and the need to sign on it, but it does make the first component, the question of security, all the more important. Because there might be a rollback, the pillar of security has to be enormously powerful, cast in the strongest concrete terms - like concrete. It has to be very, very solid. So I think this is what is required of the Palestinian leadership.

I'd like President Abbas to make, if not his Bar-Ilan speech, I'd like to hear the Bir Zeit speech in which he says these things very clearly. And I'd like to meet him and make peace.

Thank you very much.