

Investing in Israel

WARREN BUFFETT IS BULLISH ABOUT THE FUTURE OF ISRAEL'S ECONOMY

American investment guru Warren Buffett recently traveled to Israel to tour the Galilee-based company he bought and to tout the Jewish state's dynamic economy for presenting excellent opportunities to international investors.

"If people are smart, they'll follow us," Buffet said. Buffet's company, Berkshire Hathaway, bought Iscar Ltd.—an Israeli company that makes metal-cutting equipment—in July. Berkshire had never previously made an acquisition outside the United States.

"With this purchase, we are sending an indirect message to the world for foreign investors to make similar investments," said Buffett, the world's second-richest man behind Microsoft founder Bill Gates. "Berkshire Hathaway and Israel will be here forever, as Israel and the U.S. will be here forever."

Lacking natural resources, Israel has become renowned as the home of high-tech companies that draw on the Jewish state's human capital—Israelis have more college degrees per capita than any other nation—to produce innovations such as cellular telephone technology, Pentium computer chips and voice-mail systems. Israel today has more companies listed on the NASDAQ stock exchange than any other country except for the United States and Canada.

"Being in Israel has a major advantage of having the exposure to a fabulous pool of talent and brains," Buffett said.

While Iscar sits only six miles from the Lebanese border and had to close for a few days during this summer's war with Hizballah, Buffett said that the long-term risk of doing business in Israel was negligible.

"Over the long term," Buffett said, "the U.S. and Israel have exactly the same risk factor." •NER•

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NEAR EAST

Report

SEPTEMBER 25, 2006

AIPAC'S BIWEEKLY ON AMERICAN
MIDDLE EAST POLICY

EDITOR'S COMMENTS

Strong Statement

In a major address at the opening of the U.N. General Assembly, President Bush called on the people of the Middle East to choose between two starkly contrasting visions: building peace and security or wreaking mayhem and death. He pledged the full support of the United States to all those wishing to promote peace and the well-being of their societies.

The president forthrightly defined the major international challenge of our time as the "great ideological struggle between extremists who use terror as a weapon to create fear and moderate people who work for peace." He pledged to protect Americans from "those who pervert Islam to sow death and destruction."

Among the extremists, Bush listed the Hizballah terrorists, whose "unprovoked attacks on Israel" he blamed for the recent war and destruction in Lebanon, and their Hamas counterparts, who he said are working with Hizballah "to destabilize the region."

Turning to the Palestinian people, the president said, "The world has sent a clear message to the leaders of ...see Editor's Comments cont'd on pg. 64

Enforcement Urged

INTERNATIONAL CALLS RISE FOR HIZBALLAH TO DISARM UNDER A U.N. RESOLUTION

Top officials from the United States and the United Nations have recently stressed the need to carry out Security Council Resolution 1701, which calls for Hizballah's disarmament and forbids the terrorist army's sponsors—Iran and Syria—from re-supplying its arsenal.

In an official report on implementation of the resolution, U.N. Secretary-General Kofi Annan said Lebanon cannot allow Hizballah to continue to operate as an armed group.

"No state in the region or elsewhere," Annan wrote, "would tolerate the existence of armed groups which challenge the



Photo by the Associated Press

Assistant Secretary of State David Welch warned Syria to respect the arms embargo on Hizballah.

state's monopoly on the legitimate use of force throughout its territory."

Resolution 1701 expanded UNIFIL, an armed force already present in Lebanon, and authorized it to help the Lebanese army take charge of regions of the country from which Hizballah attacked Israel with more than 4,000 rockets this summer. If requested by the Lebanese government, the force can also go to the Lebanon-Syria border to help the Lebanese military stop arms smuggling to Hizballah.

Annan's report added that the secretary-general expects "tangible cooperation" from Iran and Syria in maintaining the embargo against Hizballah established by Resolution 1701.

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Following the Money

THE U.S. TREASURY DEPARTMENT HAS INCREASED ITS EFFORTS TO FIGHT INTERNATIONAL TERRORISM BY CRACKING DOWN ON THE BANKS AND FRONT COMPANIES THAT HELP FUND HIZBALLAH, HAMAS AND OTHER TERROR GROUPS

Weeks after Hizballah's war against Israel focused attention on how the terrorist army uses money to buy favor in Lebanon, the Treasury Department is stepping up efforts to choke off the financial pipelines of terrorist groups and their state sponsors.



Photo by the Associated Press

Treasury Secretary Henry Paulson has urged other nations to act against terror front groups.

The past month has seen the department take action against companies, individuals and banks accused of providing financial services to Hizballah and several Palestinian terrorist organizations.

The crackdown has had ripple effects—international financial institutions have decided to cut ties with a bank targeted by the Treasury Department, and several firms are re-assessing ties to countries such as Iran.

The United States Has Sanctioned Firms With Terrorist Connections

All of the companies recently penalized by the Treasury Department are now listed as terrorist groups.

Two Lebanese firms, Bayt al-Mal and the Yousser Company for Finance and Investment, served as Hizballah's "unofficial treasury," according to Stuart Levey, the head of the Treasury Department's Office of Terrorism and Financial Intelligence.

The department also added a charity—the Islamic Resistance Support Organization—to its terrorist list for raising money for Hizballah. Receipts issued

to donors by the group listed projects such as "contribution to the cost of a rocket" and "contribution to the cost of bullets."

The Treasury Department froze all of these entities' U.S. assets and made it illegal for Americans to deal with them.

The Treasury Department Has Helped Isolate Iran

The Treasury Department has also played a key role in American efforts to isolate Iran, whose pursuit of nuclear arms has compounded its threat to U.S. interests as the chief state sponsor of terrorist groups such as Hizballah.

"You can't have a secure financial system, you can't preserve the reputation of a financial system if you let people come in and abuse it, and abuse it for illegal activities of any kind—WMD proliferation, terrorism," Treasury Secretary Henry Paulson said. "And Iran is abusing the financial system."

The department completely closed the U.S. financial system to Bank Saderat, a major state-owned Iranian bank with 3,400 branches across the Middle East. Because of the decision, Saderat will likely be unable to process any transactions involving dollars.

Iran had used the bank to transfer \$50 million to Hizballah in recent years. It also funneled money to Palestinian terrorist groups including Hamas, the Popular Front for the Liberation of Palestine and Palestinian Islamic Jihad.

The U.S. Campaign Against Terror Finance Has Pressured Other Entities to Cut Off Terrorists

By publicizing and penalizing terrorist financial networks, the United States has also helped convince multi-national firms and other businesses to cut ties with companies linked to terrorism.

Wachovia, a major bank based in North Carolina, ended its relationship with Lebanon's Middle East and Africa Bank (MEAB) after NBC News exposed MEAB's role in collecting donations for Hizballah. Wachovia affirmed its policy of "not conducting business with any organization identified by the U.S. government as a terrorist organization or supporting terrorism."

Shortly after the Treasury Department's move against Saderat, three leading Japanese

banks announced that they would stop doing business with the Iranian bank.

Earlier this year, the Switzerland-based UBS pulled out of Iran while two other Swiss banks—HSBC and Credit Suisse—reduced their ties to Tehran.

Additionally, Treasury Department officials have recently been circling the globe to

OVER THE PAST MONTH, THE U.S. TREASURY DEPARTMENT HAS TAKEN ACTION AGAINST BUSINESSES LINKED TO HIZBALLAH, HAMAS AND OTHER PALESTINIAN TERRORIST GROUPS, AS WELL AS A MAJOR IRANIAN BANK.

press foreign governments to crack down on terrorist financing.

At a recent meeting in Singapore of the International Monetary Fund and World Bank, Paulson urged the world's leading industrialized nations to guard their banking systems against as many as 30 Iranian front companies that are transferring money to terrorist groups through financial institutions around the world.

Meanwhile, Levey and Deputy Treasury Secretary Robert Kimmitt traveled to Europe to urge cooperative efforts against terrorist exploitation of banks.

Despite Effective U.S. Action, Some Financial Avenues Remain Open to Terrorists

For all of its successes, the United States' economic war against terrorism has yet to disrupt every terrorist financial network.

For instance, the Treasury Department has yet to add to its terrorist list Jihad al-Binaa, or "Construction Jihad," which enlists support for Hizballah by distributing money in southern Lebanon.

Analysts and government officials stress that the effort to de-fund terrorist organizations is central to protecting the United States, Israel and other nations from attacks.

"If they have a hard time moving money, they'll have a hard time funding their operations," said terrorism analyst Daniel Benjamin of the Center for Strategic and International Studies. •NER•

Near East Report recently interviewed Michael Eisenstadt, a military expert at the Washington Institute for Near East Policy, to examine what Israel accomplished in the Lebanon war. Excerpts of the interview follow. The full text is available at www.aipac.org.

Near East Report: Why did the IDF have so much difficulty in its war against Hizballah?

Michael Eisenstadt: Part of the problem was that Hizballah was embedded in southern Lebanon's civilian population. Many of the people were civilians by day and fighters by night. Some of the command-and-control facilities were in the middle of major urban areas—sometimes even in intermediate floors of buildings with civilian offices above and below. That created an extremely difficult problem for the IDF, part of which was solved by leaflet campaigns warning the civilians to flee the area prior to combat.

NER: How badly was Israel able to damage Hizballah's infrastructure during the conflict?

ME: Clearly, Israel landed a significant blow against Hizballah's long-range rocket systems, some of which were capable of striking as far south as Tel Aviv. The IDF has probably done irreparable damage to the network of fortifications in southern Lebanon used by Hizballah fighters against Israeli forces. It probably did significant damage to some of Hizballah's command-and-control capabilities, in terms of the bombing of the security area in southern Beirut, the location of Hizballah's headquarters. Computers and databases and files were likely destroyed in those strikes. Casualties among Hizballah's fighters will also have an impact on the organization.

The war has also created some new realities on the ground in Lebanon. Because of the U.N. cease-fire, Hizballah is much more constrained now in terms of its freedom of action in the south. With the deployment of an expanded U.N. peacekeeping force to help enforce the cease-fire,

Hizballah has promised the Lebanese government as well as the U.N. that its personnel will not walk around with arms in the open and that they will be constrained moving their heavy weapon systems around as long as the peacekeepers are there.

The problem is the capacity for re-supply. Resolution 1701 is very clear that there should be no re-supply of arms to any armed groups in Lebanon. It's unlikely that Israel will sit by in the long term if Hizballah continues to be re-supplied by Syria and Iran.

NER: Do you think the intensity of Israel's military operations in Lebanon surprised Hizballah?

ME: There's no doubt that Israel surprised Hizballah. [Hizballah leader Hassan] Nasrallah himself acknowledged that he was surprised by the intensity of the Israeli response and said that if he had known that this is how Israel would have responded, he would not have authorized the July 12 attack on Israel that sparked the fighting.

I think the top officials in Hizballah were surprised by the staying power of Israel—the fact that you had a million Israelis under fire in the northern part of the country and yet there were no calls for an early cease-fire. In fact, the Israeli public showed a great deal of resilience and called on the government to continue the war as long as it was necessary in order to finish the job. Hizballah was also surprised by the willingness of the Israeli troops to sustain losses and to press home attacks on prepared Hizballah positions. The degree to which the IDF succeeded in destroying the long-range rocket launchers, I think, was also a surprise to Hizballah.

NER: Would you say that the war restored Israel's deterrent against attacks from Hizballah?

ME: The question of Israel's deterrence is complicated and not easy to answer in the first weeks after the fighting. The fact that Israel hit back very hard I think will have a deterrent effect on Hizballah. Nasrallah himself has said he's not looking for a second round right now. •NER•

ARMED ACHIEVEMENTS

ASPECTS OF HIZBALLAH'S INFRASTRUCTURE LOST TO ISRAELI MILITARY ACTION

MANPOWER

✓ Hundreds of Hizballah's most experienced fighters died in clashes with Israeli troops.



WEAPONS

✓ Israel destroyed nearly all of Hizballah's long-range rockets, which were capable of striking as far south as Tel Aviv.



HEADQUARTERS

✓ Israeli bombing damaged Hizballah command-and-control centers, destroying communications gear used to facilitate attacks on Israel.



BUNKERS

✓ Israel's air force inflicted substantial damage on the network of bunkers Hizballah used to hide men and weapons.



MOVEMENT

✓ Israel's military action paved the way for a U.N. force to deploy in southern Lebanon, constricting Hizballah's freedom of movement.



Hamas: Serve the interests of the Palestinian people, abandon terror, recognize Israel's right to exist, honor agreements that work for peace." He repeated his commitment to "two democratic states, Israel and Palestine, living side by side in peace and security," and reiterated that the internationally-backed Roadmap peace plan is the best way to advance an Israeli-Palestinian peace process that has been derailed by ongoing terrorism and rejection of Israel.

Bush declared that "Iran must abandon its nuclear weapons ambitions," and told the people of Iran: "Your rulers have chosen to deny you liberty and to use your nation's resources to fund terrorism and fuel extremism and pursue nuclear weapons."

The president also correctly noted that Syria has continued to act as "a crossroad for terrorism" and "a tool of Iran." He called on Damascus to "choose a better way forward."

Should the people of the Middle East opt for the constructive choices President Bush laid out, the Middle East's grim reality could give way to a far brighter future. For this to be possible, Israel's neighbors must accept the existence of the Jewish state and abandon terrorism and violence against it. They must also demonstrate that they are willing to overcome the extremist forces in the Middle East that are determined to wreck any prospects of peace. •NER•

High Opinion

TWO RECENT POLLS FOUND THAT ISRAEL'S SUPPORT AMONG THE AMERICAN PUBLIC REMAINS STRONG IN THE WAKE OF THE LEBANON WAR

Israel's standing in the United States has improved following the recent war in Lebanon, according to two polls—one by Greenberg Quinlan Rosner Research (GQR), and the other by Quinnipiac University Polling Institute (QUPI).

According to GQR's poll, 53 percent of respondents considered themselves supporters or strong supporters of Israel. Only five percent said they were supporters or strong supporters of the Palestinians. GQR's Stan Greenberg said his findings showed that Israel's disengagement from Gaza and the Lebanon war brought Israel increased support from the American public. He said that since the withdrawal from Gaza, people believed that Israel was more willing to make sacrifices to advance peace than were the Palestinians or their leaders.

The GQR poll also showed that the war in Lebanon focused attention on the connection between Hizballah and Iran, the terrorist army's chief state sponsor. Only 38 percent of Americans were aware of the link during the

first week of the war, in contrast to 53 percent after the fighting ended.

Most significantly, Greenberg said, there was an increased awareness that Islamic extremism, not the Israeli-Palestinian conflict, is the source of instability in the Middle East. In the United States, 63 percent of respondents said that Islamic extremism is to blame for the region's instability, while only 15 percent blamed Israel.

QUPI also concluded that the recent conflict between Israel and Hizballah deepened already strong American support for the Jewish state. Completed shortly after the end of the Lebanon war, the QUPI poll asked respondents to rate countries on a "friend versus foe" scale of 1 to 100. Israel received an average score of 65.9, placing it third among the nations tested.

The GQR and QUPI surveys are not exceptional. U.S. polls have consistently found strong support for Israel, and that Americans across a range of demographic groups identify with the Jewish state. •NER•

Enforcement Urged....cont'd from pg. 61

Called a "crossroad for terrorism" by President Bush in his recent address to the U.N. General Assembly, Syria could face U.S.-led international pressure if it helps undermine the embargo.


Assistant Secretary of State for Near Eastern Affairs David Welch told the Senate Foreign Relations Committee that if Damascus attempts to deliver arms to

Hizballah, the Bush administration will ask the U.N. Security Council "to bring Syria to account."

A total of 115 members of the House of Representatives had previously written President Bush to urge him to impose the full range of potential U.S. sanctions on Damascus in response to its ongoing support of terrorist groups including Hizballah. •NER•

Periodicals postage paid at Washington DC and additional mailing offices. Postmaster: Send address changes to Near East Report, 440 First St., NW Suite 607 Washington DC 20001

NEAR EAST RESEARCH, INC.
440 First Street, NW, Suite 607
Washington, DC 20001
www.aipac.org



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(ISSN 0028-176X).
Published biweekly
except when Congress is
out of session by Near
East Research, Inc. at
440 First St., NW,
Suite 607
Washington, DC 20001

Subscriptions \$50
per year. For circula-
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