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From: Abedin, Huma <AbedinH@state.gov>
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From: Moore, Anna W
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Subject: (AP) Israel Says No Building Freeze In Jerusalem

JERUSALEM (AP) – Israel insisted November 18 it would keep building homes in disputed east Jerusalem, threatening to hold up a U.S.-proposed settlement construction moratorium designed to renew deadlocked Mideast peacemaking.

The contours of the moratorium deal, as presented by Israeli officials after Prime Minister Benjamin Netanyahu returned from the U.S. last week, had appeared to be clearly agreed upon.

Washington, they said, had agreed to exclude the eastern sector of the holy city from the 90-day moratorium and there would be no further demands for construction curbs in the West Bank when the latest moratorium expired.

On November 18, however, a day after Netanyahu said a deal was imminent, the U.S. still had not sent a promised letter detailing the understandings on the proposed moratorium.

In Washington, a senior Obama administration official said the U.S. and Israel were still "haggling" over details of the written assurances. The official said most of the unresolved issues were relatively routine but added that it was unlikely that the letter would be finished Thursday.

The official, who spoke on condition of anonymity because he was not authorized to speak publicly about the matter, said it was not clear when the letter might be completed.

In a speech November 18, Netanyahu suggested agreement was neither imminent nor inevitable.

He said he has been holding intensive contacts with the Obama administration since his meeting with U.S. Secretary of State Hillary Rodham Clinton a week ago.

"The objective is to formulate understandings through which we can promote the political process while maintaining the vital interests of the state of Israel, primarily security," Netanyahu told students at the Technion, a technology school. "If I accept such an offer from the U.S. government I will bring it before the Cabinet and I have no doubt that my fellow ministers will accept it."

Earlier November 18, Netanyahu spokesman Mark Regev said any future moratorium would not apply to Jerusalem, whose eastern sector was annexed by Israel in 1967 in a move not recognized by the international community.

He noted that an earlier settlement slowdown, whose expiration in September led to the current impasse in peace efforts, did not include Jerusalem.

"Israel makes a clear distinction between the West Bank and Jerusalem," Regev said. "Jerusalem is our capital and will remain as such. The previous moratorium did not apply to Jerusalem ... If there is a future moratorium, it will similarly

not apply to Jerusalem."

Palestinians want construction to halt in both areas, which they claim for their future state along with the Hamas-ruled Gaza Strip. They have not said whether the partial freeze being brokered by the U.S. will be enough to draw them back to the negotiating table.

The negotiations broke down in late September - just three weeks after they began at the White House - following the expiry of a 10-month moratorium on new West Bank construction.

The U.S. hopes a renewed moratorium would allow Israel and the Palestinians to make significant progress toward working out a deal on their future borders. With borders determined, Israel could resume building on any territories it would expect to keep under a final peace deal.

To entice the Israelis to sign on to the deal, the U.S. has proposed a package of incentives including a gift of 20 next-generation stealth fighter planes and U.S. pledges to veto anti-Israel resolutions at the United Nations, Israeli officials have said.

But Netanyahu has been having trouble winning support from the plan even from his coalition allies. The ultra-Orthodox Shas Party, which can make or break the deal, says it will let it go through only if Israel receives written assurances from the U.S. that the building restrictions exclude Jerusalem.

In a sign of the backroom dealings in Israel around the deal, an official close to Shas said the party had received assurances that if it abstains in the vote, Defense Minister Ehud Barak would authorize the construction of hundreds of apartments in the West Bank immediately after the moratorium expires.

Some of the construction would take place in specifically ultra-Orthodox communities and other projects would be built in a settlement just outside Jerusalem, giving Shas something to take back to constituents who might otherwise oppose another moratorium.

The official spoke on condition of anonymity because the deal has not been officially announced. The Defense Ministry did not reply to a request for comment.

Shas is critical to any moratorium deal because the inner Cabinet that will vote on it is almost evenly split, and Shas holds the two swing votes.

The party's spiritual leader, a 90-year-old rabbi known for his harsh comments about Arabs, will make the final determination on how to vote.