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CEGI

September 14, 2007

Dear Friend:

Hoozah!

There are 10 Good Reasons

Why You Should Feel Good about What is Happening in
Israel

How about joining me in a "sit back and enjoy" mood as we review together some of the encouraging news from Israel. (Yes, I am overlooking the threats from Iran ... bad as they are.)

The immediate news that I would like to suggest relates to your sharing Israeli opportunities with your business friends who are in a globalization mood. They might welcome this information so that they will take a more serious look at the positives Israel offers to their companies.

I believe that these 10 encouraging signs will dispel some of the negative concerns about Israel that American CEOs might have as they compare Israel to India or to China as a place to outsource their production or research.

I ask you to join me in reviewing these 10 positives. Let's start with:

1. Israel's economy is moving ahead at a fast clip. *Globes* reported August 8, 2007: "The Bank of Israel says that almost all economic indicators point to an expansion in non-financial economic activity. The State of Israel Economic Index rose 6.4% in first half, retail trade rose by 4.1%, and industrial output rose by 9%."

Te Committee for Economic Growth of Israel is a nonprofit organization dedicated to expanding business relationships between the United States and Israel.

Executive Office - 5301 North Ironwood Road, P.O. Box 2053 Milwaukee, WI 53201
Ph: (414) 906-6250 Fx: (414) 906-7878 E-mail: elmer.winter@na.manpower.com
Israel office - 25 Habanim St., POB 1594, Ramat-Hasharon 47114 Israel Ph: (03) 549-3720 Fx: (03) 540-8510

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“The Bank of Israel further reported that Israel’s GDP per capita adjusted for purchasing power parity was \$27,688 in 2006, placing Israel 21st in a list that includes Israel and the 30 OECD countries. The OECD average was \$30,872.”

According to a report from the *Jerusalem Boardroom*:

“ISRAEL RANKS 3RD in the world, following California and Massachusetts, ahead of New York and Texas in the volume of high-tech investment. According to Price Waterhouse-Coopers, \$626MN was invested by VC funds in Israel’s high-tech (161 companies) during the first half of 2007 – the highest since 2001 (\$885MN).”

Globes reported on August 28, 2007: “Israel’s tourism industry has finally emerged from the shadow of the Second Lebanon War last summer. Figures released by the Israel Hotels Association show that tourist numbers and occupancy rates at hotels are now similar to those in the summer of 2005.”

2. President Bush looks with favor upon Israel. *The Jerusalem Post* reported (August 16, 2007): “Bush said that Israel ‘should be confident that the United States will never abandon its commitment to the security of Israel as a Jewish State and homeland for the Jewish people.’ This is code for the U.S. opposing a Palestinian ‘right of return’ to Israel, rather than to Palestine.”

Good news ... right?

Secretary Condoleezza Rice stated: “We fully support Abbas in his decision to try and end this crisis for the Palestinian people and to give them an opportunity to return to peace and a better future.” (*ATFP*, June 15, 2007)

“It is time for a new Middle East,” declared U.S. Secretary of State Dr. Condoleezza Rice at her recent meeting with Israeli Prime Minister Ehud Olmert in Jerusalem.

“We cannot return to a status quo ante, in which extremists at any time can decide to take innocent life hostage again, by using their missiles or using their capabilities,” Rice said, and added, “That is why we have, and the president, President Bush, has talked about an enduring cease

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fire, an enduring cessation of violence, which would, indeed, make the security situation better than it was before.”

3. A Regional Conference is scheduled. *BBC News* reported (August 1, 2007) that the U.S. is proposing a Regional Conference sometime in the autumn, possibly in October or November, and maybe in the U.S. itself.

“The aim is to capitalise on whatever momentum has been created by a peace plan put forward by Saudi Arabia and approved by other Arab countries. This plan has been given a shove following the upheavals caused by the Hamas takeover in Gaza and the effort to support the government of Mahmoud Abbas in the West Bank.”

“The Saudis have indicated that they will attend and, since Israel intends to be there, this could be a step forward, as the Saudis do not recognize the State of Israel.”

Ha'aretz reported July 18, 2007: “Israeli officials welcomed U.S. President George W. Bush’s call Monday night for an international conference to spur peace efforts with the Palestinians, but a senior official said this is not the time to discuss the key issues.”

“Miri Eisin, a spokeswoman for Prime Minister Ehud Olmert, said the conference would provide an opportunity to bring together all those who are truly interested in peace in the Middle East.”

“However, she said it is too early to talk about full-fledged peace talks as long as Palestinian violence against Israel continues. A peace settlement would require agreement on such contentious issues as borders, the fate of millions of Palestinian refugees, and the status of Israel’s disputed capital Jerusalem.”

Ha'aretz reported August 28, 2007: “Foreign Minister Tzipi Livni and Fayad agreed at their meeting in Jerusalem yesterday to strengthen civilian and economic ties between Israel and the Palestinian Authority. To this end, they resolved to establish committees for economics, social affairs and the environment. It was also suggested that meetings between mayors from each side be organized to promote joint projects.”

That’s my emphasis—economic development.

4. Israeli officials are giving the first signs that they are preparing for negotiations on a final-status peace agreement with the Palestinians. This was reported in *Forward* (August 8, 2007): "... Government sources in Jerusalem said that Israel would like to arrive at the conference with an agreement in principle that will define the outlines of a final-status solution without going into specific details."

"We're not talking about drawing lines in the map yet, but we do want a set of principles which will flesh out the general ideas discussed in previous agreements,' the government source said, speaking on condition of anonymity."

According to Prime Minister Olmert: "We will cooperate with this government," Olmert said. "We will de-freeze monies that we kept under our control. And we will do everything we can in order to help upgrade the quality of life for the Palestinian people."

In my view that means "jobs" for the Palestinians.

Prime Minister Ehud Olmert is offering to hold negotiations toward an "Agreement of Principles" for the establishment of a Palestinian State on most of the territory of the West Bank and the Gaza Strip.

Olmert's proposal to Palestinian Authority Chairman Mahmoud Abbas is based on his view that it is important to first discuss issues that are relatively easy for the two sides to agree upon. No less important is Olmert's assessment that such an accord will enjoy the overwhelming support of the Israeli public and the Knesset.

"Israel is prepared to make painful concessions to pay the price for a lasting and just peace that will allow the people of the Middle East to live in dignity and security. But as strong and resourceful as Israelis are, we cannot make peace alone."

5. President Peres is involved in the peace process through his Peace Center. He anticipates that Tony Blair should help in moving the peace process forward.

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Ha'aretz reported on July 24, 2007, that President Shimon Peres told Tony Blair on Tuesday that he and Israel would work to help him in his mission as the Middle East Envoy of the quartet of peace brokers.

The report states: "Your success is our success; your dreams are our dreams. We will help you," Peres said at a press conference following their talks in Jerusalem. "*I feel there is a serious window of opportunity to advance peace.* I don't know the duration of this opportunity, I am afraid it is not too long."

JTA pointed out on July 20, 2007: "Condoleezza Rice voiced optimism over Tony Blair's prospects as the new Israeli-Palestinian trouble-shooter."

The U.S. Secretary of State pointed out that, "There is a very good sense that his dedication now to helping the Palestinians build the institutions of statehood, to *move forward on economic development* and to press forward on helping to create a strong Palestinian partner is very well timed as we try to move forward toward the establishment of a state."

Ha'aretz pointed out (July 24, 2007) that: "*Olmert will seek to use Blair's talents to disseminate the following message: that Israel wants an agreement with the Palestinians, that it does not want to hold on to the territories,* and that it is honestly interested in bolstering Palestinian Authority Chairman Mahmoud Abbas. Blair can also serve as a useful conduit with the Saudis and others in the Arab world."

Question: *Is it fair to assume that Blair will further the diplomatic process?* *Ha'aretz* pointed out (July 23, 2007): "Political sources in Jerusalem said Sunday that Blair is expected to stray from his mandate and try to further diplomatic talks between Israel and the Palestinians. Sources in the Foreign Ministry say that Blair is unlikely to deal with 'technical' matters – building institutions and mobilizing the support of donor countries – *and will focus on furthering the diplomatic process.*"

Stop for a moment. Here's a concern expressed in *U.S. News & World Report* on July 23, 2007: "Could the West Bank prosper under Fatah and Gaza fail under Hamas? That is the hope. Fatah's Mahmoud Abbas and Salam Fayyad, a former World Bank official well liked in the West,

will receive hundreds of millions of dollars in western and Israeli support. As a political gesture, Israel has released 250 prisoners and will also remove some of the internal checkpoints in the West Bank.”

“The trouble is that Fatah is a broken reed. It lost elections in Gaza because of rampant financial corruption, abuse of power, mismanagement, and weak leadership. Its leadership is likely to go on in the same style with fancy villas and chauffeur-driven Mercedeses. Abbas is a pathetic figure. He has always found it hard to take decisive action. He even failed to order his Presidential Guard to fight back in Gaza when it had more than twice the number of guns as Hamas.”

Not very encouraging!

6. Prime Minister Olmert and Hamas President Abbas have been meeting. Israel Policy Forum reported on August 17, 2007: “But now come reports from the region that Olmert and Abbas have made significant progress toward a declaration of principles of a permanent status arrangement that they intend to present at the international conference in Washington.”

According to Shimon Shiffer, the influential Yediot Ahronot reporter, “Olmert told a visiting Congressional delegation this week that ‘for months he has been discussing with Abu Mazen the core issues of the conflict with the intention of reaching agreed upon principles on the fundamental issues that will lead to the establishment of a Palestinian State alongside Israel borders, Jerusalem, refugees, exchange of territories, passage between the West Bank and the Gaza Strip and the essence of relations between Israel and the Palestinian State.’”

Substantial agreement has been reached and it appears the two sides could be fully in sync by November when the international conference is slated to take place. Best of all, the Saudis are pleased at the progress and are indicating that, if an agreement on principles is achieved, they will not only attend the international conference, they will bring along other Arab States which, until now, have refused to parley with Israel.

Sounds like progress is being made.

7. The U.S. is increasing aid to Israel. *The JTA reported (July 30, 20/07):* “A U.S. plan to increase military aid to Israel to offset growth in U.S. aid to Arab allies is being welcomed in Jerusalem. Israeli Prime Minister Ehud Olmert said he and President Bush agreed in talks at the White House last month that Israel would receive \$30 billion in U.S. military aid over the next decade, averaging \$3 billion a year. Olmert said it was an increase of 25 percent.”

“I think this is a significant and important improvement of the defense aid to Israel,” the Israeli leader said. The U.S. aid package is designed to address Israeli concerns about Washington’s proposed sale of some \$20 billion worth of advanced weaponry to Saudi Arabia, including advance satellite-guided bombs, fighter-jet upgrades and new naval vessels.

The Saudi proposal has raised hackles in Israel and among Israel supporters in Congress, but recently Olmert said Israel understands Washington’s need to bolster moderate Arab States through weapons sales. The United States is also considering a \$13 billion aid package to Egypt, according to a State Department spokesman.

8. An Arab League - Jordan, Egypt, Saudi Arabia, etc. - contingent has visited Israel. It was reported in our local press: “In a historic first, an Arab League delegation came to Jerusalem to promote a plan for peace with Israel, saying it offers the country ‘security, recognition and acceptance’ by its Middle East neighbors.”

Olmert is alleged to have remarked about the meeting, “I would like it if, next time you visit, you bring with you more ministers from other Arab States in order to discuss the Arab initiative with us.”

Question: Is peace in the offing? Some disagree that peace is in the offing.

Yitzhak Reiter, a professor of Middle Eastern history at the Hebrew University of Jerusalem, stated: “This visit comes at the wrong time,” he said. “There is no clear and legitimate partner on the Palestinian side,” he said, referring to the constitutional crisis afflicting the Palestinian system since Hamas’ violent takeover of Gaza last month.

9. Fayad's appointment as Prime Minister is considered positive for Israel. Fayad, a U.S.-trained economist, has strong Western support and leads a largely technocratic cabinet that is backed by Fatah but which is formally made up of independents. Two of the three new ministers are academics; one is a women's rights advocate.

Prime Minister Salam Fayad is developing an overall reform plan that will tackle security, *the economy* and welfare in an effort to "rescue" the West Bank from a fate similar to that of the Gaza Strip, where Hamas ousted Fatah and took control. (*Ha'aretz*, July 13, 2007)

Fayad is also planning a series of infrastructure and housing projects throughout the West Bank. Through \$120 million in aid for the first months of 2008, promised by Western donor states at the time of the installation of his government, Fayad is planning the construction of new neighborhoods, roads, etc. Thousands of unemployed would become wage-earners, giving the Palestinian economy an important boost.

Sounds encouraging ... if it comes about. There is a possibility of jobs which, in my opinion, effects terrorism.

10. Shimon Peres, President of Israel, has met with PM Sclanl Fayad. President Shimon Peres recently hosted Palestinian Prime Minister Salam Fayad at his official residence in Jerusalem; Peres confirmed that he had met with senior Palestinian officials.

The president also invited Palestinian Authority Chairman Mahmoud Abbas to meet with him. (*Ha'aretz*, August 21, 2007)

What's ahead?

Let's wait for the events to unfold. In the interim, think over the remarks of Prime Minister Olmert as reported in *JTA* on June 19, 2007: "We will cooperate with this government. We will de-freeze monies that we kept under our control. And we will do everything we can in order to help upgrade the quality of life for the Palestinian people."

"Olmert also said he would talk to Abbas, who most Western States view as a moderate alternative to the extremism of Hamas, 'about the political horizon for

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what will eventually be the basis of a permanent agreement' with Israel. The purpose, Olmert said, is to show the Palestinians that 'when they are ready to refrain from terror, there is a genuine chance for a better life.'"

Well, there you have enough talking points to get your business friends to say, "You made a lot of sense to help us think seriously about Israel as our next globalization center. I'll get back to you after our next board meeting where I'll bring up the subject of Israel."

Very truly yours,

Elmer

Elmer L. Winter
Chairman

ELW:mg/ca/bd

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This information has been prepared by Elmer L. Winter. For further information, contact: Elmer L. Winter, P.O. Box 2053, Milwaukee, WI 53201; telephone 414-906-6250; facsimile 414-906-7878; e-mail elmerwinter@elmerwinter.com.

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