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1. (C) Summary: In a meeting with Likud Party leader Bibi Netanyahu September 26, Netanyahu told the Ambassador he was pleased with his recent visits to Washington and London, and appeared confident that he and his party would make a political comeback as a result of the Israeli public's swing to the right, in the wake of its summer conflicts. He did not point to a specific mechanism or timetable for Prime Minister Olmert's coalition to collapse, but he asserted that Olmert and Peretz had exhausted their reserves of popular good will and would therefore not be able to recover from the criticism of their performance in the Lebanon war. Netanyahu said he was rethinking his attitude toward moderate Arab regimes, noting that he sensed a positive shift in the Gulf as a result of the Lebanon war and Iran's nuclear program. Netanyahu praised President Bush for saying that a nuclear armed Iran was unacceptable, and urged U.S. action to prevent Iran from developing nuclear weapons. "We do not want to find out whether a nuclear Iran is ready to sacrifice millions in order to destroy Israel," he said. The Ambassador briefed Netanyahu on three pieces of legislation in the Knesset: to criminalize labor trafficking, improve export controls, and modernize Israel's copyright law. He asked for Likud's support on the first two, noted U.S. concerns about the third. Netanyahu offered his support on labor trafficking and the copyright legislation, but said he would like to see the standards the U.S. was proposing Israel meet on export controls, especially for transfer of dual-use technology. End Summary.

Iranian Threat Creating New Opportunities  
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2. (C) The Ambassador, accompanied by Political Counselor, called on Likud leader Bibi Netanyahu on September 16. Netanyahu was accompanied by Eran Eshkol, Deputy Minister of Defense, and Eyal Erdad, a member of the Knesset's Economic Affairs Committee.

## Wikileaks cables

In response to a query from Netanyahu the Ambassador began by noting that the Gulf states were alarmed by the growing threat from Iran, and this could be good news for Israel.

Netanyahu agreed, saying there was now room for Israel to create new alliances, including with Saudi Arabia. Although he had often criticized the Arab governments for failing to think strategically, Netanyahu said they were waking up to the threat that an Iranian nuclear capability would constitute. The Ambassador noted that Arab states were also concerned by Ahmadinejad's attempts to play the Arab street and to assert leadership of the Muslim world. Netanyahu said he was changing his view of the moderate Arabs; there was an opportunity now for Israel to establish real alliances. The Ambassador commented that the Arabs also appeared more willing to facilitate progress with the Palestinians. Netanyahu replied that the Hamas government must be brought down, but if Iran developed a nuclear bomb it would not matter what Israel did with the Palestinians since the moderate Arab regimes would be swept away.

3. (C) Netanyahu stated that militant Islam, in both its Sunni and Shia forms, was the "third ism" to threaten the West after Nazism and Communism. Sunni and Shia militants fought each other for dominance, but they also would join together to fight the West. Americans should remember that Israel was only the "little Satan" while the U.S. was the "great Satan." The Iranians were smarter than Hitler, he said, because they were developing their nuclear bomb before starting a war. The key question was whether the U.S. would act to prevent Iran from getting a bomb. Israel could not afford to wait to find out whether a nuclear Iran was suicidal. He quoted Rafsanjani as once saying that Iran could destroy Zionism with a single bomb. Ahmadinejad, who was more of a religious fanatic than Rafsanjani, might be willing to sacrifice millions of Iranians in order to wipe out Israel. Israel could not take that risk.

4. (C) Netanyahu said that in his meetings in Washington with Vice President Cheney and several Senators, he had found complete comprehension of the seriousness of the Iranian threat. European views are also evolving, he said, especially when Europeans consider the effect on their own Muslim minorities of a nuclear-armed Iran. The "pathology of terrorism" is getting the Europeans' attention. The Ambassador noted that Islamic militants tried to instill fear of the West, but we should not forget that they only represent a small percentage of Muslims. Netanyahu said the question was how to offer an attractive alternative for hundreds of millions of Muslims. He and the Ambassador agreed that democratic reform was part of the answer, but Netanyahu stressed that democratization was a complicated process that required a comprehensive approach and took time.

Olmert's Government Weak

5. (C) Commenting on Israel's internal political situation, Netanyahu observed that politicians can survive political mistakes if they have deep reserves of trust. In the case of Olmert and Peretz, however, they had no such reserves. The government could have gained the public's trust if it had run the Lebanon war differently, for example by implementing a more daring plan developed by Shaul Mofaz when he was Defense Minister. Now Olmert was in trouble, but it was unclear what would happen next. He could muddle through for some time, or the coalition could collapse if one party bolted, or there could be a leadership challenge within either Kadima or Labor. Olmert could also try to broaden his coalition by bringing in Avigdor Lieberman, but he did not have much to offer.

6. (C) Exuding confidence, Netanyahu said Likud was not trying to undermine the government but was working on offering a credible alternative. He argued that Israeli public recognized that Israel could not allow "a third Islamic base" to be created in the West Bank now that the results of its withdrawals from Gaza and southern Lebanon had become clear. He criticized the way Israel had withdrawn from southern Lebanon in 2000, noting that if Barak had first struck a strong blow against Hizballah and then withdrawn in an orderly manner, he would not have created the impression of Israeli weakness that built up Nasrallah and also encouraged the Second Intifada. Israelis now see Likud as having the "more realistic" message. Also on the economy, Kadima and Labor had no vision. Netanyahu said the government would probably not fall over the budget, but he insisted Israel still needed to cut taxes and remove barriers to competition.

Looking to U.S.

7. (C) Returning to Iran, Netanyahu said Israel was looking to the U.S. to prevent an Iranian bomb. If the Iranians are not stopped, there will be a whole array of problems to consider. Netanyahu praised President Bush's comment that the "free world" would not allow Iran to develop nuclear weapons, noting that this appeared to emphasize a coalition

outside the UN framework. He recommended that the U.S. invest greater effort in convincing Russia of the threat. In addition, the Iranian program was pushing Egypt and possibly Saudi Arabia toward developing their own nuclear programs. Saying that the world was approaching a pivotal point, Netanyahu said President Bush would do the whole world a favor if he acted against Iran's nuclear program. Noting that the military option might not be feasible, the Ambassador suggested Netanyahu might wish to discuss these issues with U/S Burns when he visited Israel for the next session of the bilateral Strategic Dialogue.

Support on Legislation  
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8. (C) Ambassador raised three pieces of legislation pending in the Knesset. First, a bill criminalizing trafficking in labor had passed the first reading and was being prepared for the second reading. Netanyahu agreed the Likud would support it, noting that in addition to humanitarian concerns, he was for putting more Israelis to work. Second, there was a bill to tighten Israel's controls on exports of sensitive technology, including dual use. The Ambassador stressed that this legislation would bring Israel up to international standards. Netanyahu said he would consider the request and asked that the Embassy provide him with information on international standards. Third, Ambassador asked that Likud not support the current draft copyright law which appeared to legalize violations of IPR standards. Netanyahu commented that Likud controlled the Knesset's Economic Committee and he would look into opposing this legislation. He said his only question was whether the U.S. was making the same demarche in China since Israel was only a "minor violator" of IPR compared to China. Ambassador assured him this issue was very much on our agenda with China, but added that these issues were problem areas in U.S.-Israeli bilateral relations, and we would appreciate Likud's support in addressing them.

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JONES