

DEBKAfile is a Jerusalem-based Israeli military intelligence website “in the hawkish camp of Israeli politics”. It says the Kerry ‘framework’ submitted, prior to his latest ‘shuttle diplomacy’, to Israeli & Palestinian leaders for their comment (not approval), was based on then Prime Minister Ehud Olmert’s proposal to Mahmoud Abbas in August 2008¹. Its key features include :

- **Territory** - Israel will annex 6.8% of the West Bank, incl. the five big settlement blocks (*with an estimated population of 150,000*)², all of the settlements in East Jerusalem (190,000) & Har Homa (13,000) - *the latter to complete the encirclement of East Jerusalem?* - in exchange for 5.5% of its territory (*an ‘apples & oranges’ exchange since the Israelis would get prime urban real estate & the Palestinians marginal lands*);
- **Safe passage** - The Gaza-West Bank link would be under Palestinian control but Israeli sovereignty (*although the 1% of Israeli territory that it would occupy would come out of the above 5.5%*). The Americans want it to be a rail-, not road-, link³ (*this may suit the Palestinians since it would give Israel less scope for interference & the US has said it would pay for it*, although Abbas has said that, rather than having it end in Hebron in the South of the West bank it should be go to Ramallah, just North of Jerusalem (*more than doubling its length, & hence its cost, although any financial aspect of a peace agreement will likely be the lesser of many evils*)). And a road would be built between Bethlehem & Ramallah that would bypass East Jerusalem;
- **Jerusalem** - It would be divided as Clinton proposed many years ago, except the “Holy Basin” (0.04% of the West Bank), sovereignty over which would pass to a commission made up of representatives of the US, Israel, the Palestinians, Jordan & Saudi Arabia;
- **Refugees** - To be dealt with as Clinton proposed at Camp David in 2000 (an idea already rejected by Abbas), with a foundation established to resettle most ‘refugees’ in Canada⁴ & Australia except for a few Israel would take in the context of family reunification;
- **Security** - This is an issue the Olmert template didn’t address *but tops Netanyahu’s priorities*). It calls for the evacuation of all 10,000 settlers in the Jordan Valley (*although it’s not clear how this might be achieved since Kerry supposedly has assured Netanyahu he won’t be made to forcibly remove them if they don’t go voluntarily, as proved necessary in Gaza*)⁵, leaving only a chain of (*military?*) posts. Border crossings would be

¹ That the latter rejected all but out of hand.

² Four of which all but cut East Jerusalem off from the West Bank.

³ For students of history, this seems like an echo of Lenin’s 1917, German government-arranged trip from his exile in Zurich to Leningrad’s Finland Station when he traveled across Eastern Europe in a train with the windows blacked out & the doors locked to assume leadership of the Revolution & undermine the Russian war effort.

⁴ An idea not vetted with Ottawa first; at least Canada’s Foreign Minister John Baird expressed (*or feigned*) surprise when the media asked him about it. Besides most ‘refugees’ involved aren’t interested in the idea, still clinging to the *mistaken* belief that they somehow will be able to go back to homes that may no longer exist & neighbourhoods that likely would be unrecognizable to them if they were taken there blindfolded (that is if they are old enough to have actual memories of ever having lived there)

⁵ Does he seriously believe the 800 Orthodox Jews in the Otniel settlement near Hebron, & in the nearby illegal satellite settlement of Havat Gal that they are trying to expand, or the nearly 20,000 settlers, many of them also Orthodox, in the Jordan Valley’s 17 kibbutzim, 25 settlements & five encampments can ever be convinced to leave voluntarily?

set up on the Palestinian/Jordan border that would include an Israeli presence. Gaza & West Bank airspace would be used by both Israelis & Palestinians. But “there would be no Israeli military presence on the West Bank” ???? - it’s hard to reconcile these parameters with any known definition of national sovereignty);

- **Taxes & levies** - The Palestinians are prepared, where appropriate, to have these continue to be collected by Israel on behalf of a Palestinian government;
- **Settlements** - 80% of all settlers live in the settlements that Israel would retain & the other 20% (*the Americans estimate is 80,000, which seems to be lowballing their number by possibly as much as 80%*), with the remainder given the choice between staying in the new Palestinian state or moving to Israel proper.

Overarching the many differences of view on the above is a fundamental difference on the time line for substantive progress. Abbas has said that, while he envisages Israel will need, & he is willing to let it have, three years to relocate the settlers that must be moved, if there were no substantive progress in nine months, he & his people would have no choice but to renew their efforts to gain greater international recognition of Palestinian statehood. And according to Yossi Alpher, the former head of the Tel Aviv-based Jaffee Centre for Strategic Studies, Netanyahu would think it just fine if the framework discussions were to drag on ad infinitum, as seems not implausible given the gaps between the Israeli & Palestinian positions; for this would “suit his narrow political needs” wonderfully well since he then could claim externally to be negotiating seriously & cooperating with the US, while domestically not risking the (tenuous) unity of his coalition by having to present it with far-reaching compromises that would blow it up.

There are unusual things happenings in the Middle East. On January 5th Israeli Foreign Minister, & Deputy Prime Minister, Avigdor Lieberman mooted not just swapping territory but people as well. When Netanyahu was asked about this in the Knesset, he replied “This is the foreign minister’s opinion, and has been for quite some time.” And when Lieberman was asked if he had raised this issue with Kerry, he said he had seen no advantage in doing so (although one of his aides confirmed he had indeed done so & that Kerry had not ruled it out). On January 13th US Vice President Joe Biden, in Israel for Sharon’s funeral, in a meeting to report to Netanyahu on the P5+1 agreements with Iran, upon instructions from Obama himself didn’t share its details with Netanyahu, contrary to Obama’s earlier commitment to “full transparency”. Then after Iranian Foreign Minister Javad Sharif toured several Middle Easter capitals, incl. Damascus where he met with President al-Assad, he arrived on January 16th in Moscow on the same plane as Walid Moazlem, Syria’s Foreign Minister, both of whom went straight from the airport into a meeting with President Putin (which may have prompted Netanyahu to make an unannounced visit to Amman to meet with King Abdullah (hoping to find out what Sharif had been up to?)

According to the Kitimat, BC-based Northwest Coast Energy News (whose veracity, as a blog, is not necessarily of ‘bankable quality’) Prime Minister Harper has decided to transfer responsibility for fish & fish habitat along pipeline routes (*i.e. just about everywhere in much of Canada, but most specifically along the controversial, proposed Northern Gateway route from Edmonton to Kitimat*) from the Department of Fisheries & Oceans to the National Energy Board. Furthermore, that this was made a fact of life with the surreptitious signing, on December 16th, by Department & the Board of a Memorandum of Understanding to that effect. While in the best of all possible worlds this might not have been the end of the world, given the Harper governance style & “Drill, Baby, Drill” mentality, this is likely akin to letting the fox in the hen house. And one must wonder about his policy judgment; for it will be like waving a red flag at a bull for Northern Gateway opponents (who may even use it as another argument against approval of the Keystone XL pipeline project).

Eurozone car registrations rose strongly in December, for the third month in a row. Its 5.2% gain pushed the QoQ growth rate to 22%. While much of this was due to a one-time event in the Netherlands, the number of registrations is still sufficiently low in many Eurozone countries, & consumer confidence strengthening enough, to warrant a belief this trend won't end soon.

During the recent cold spell in Europe a school of fish is said to have been "flash frozen" in the sea near the small Norwegian island of Lovund. Having been driven into shallow waters by predators at low tide, when the air temperature suddenly dropped to minus 7.8 degrees Celsius (18 degrees Fahrenheit) the water apparently just froze around them & encased them.

GLEANINGS II - 545
Thursday January 16th, 2014

HOW WASHINGTON BEAT WALL STREET (Politico)

- In 2009 Washington went to war against Wall Street banks, resulting, *before the 2010 mid-term elections*, in the Dodd-Frank legislation to eliminate the high-risk, high-reward-, & nefarious-, practices that had sparked the financial crisis. Today, *contrary to a public perception that Wall Street always wins*, the war is over & Washington has won, hands-down. Goldman Sachs is now a shadow of its former self⁶, Morgan Stanley has turned into a staid money manager with underwriting and M&A work as a sideline *rather than its core business*, Citigroup & BankAmerica have sold off their more exotic businesses to conform with Dodd-Frank, and JPM Morgan, once deemed the only bank to have survived the financial crisis rather unscathed, has just had to cede its coveted title as America's most profitable bank to San-Francisco-based Wells Fargo, *more of a 'bread & butter' traditional bank than a Wall Street titan*, after paying, seemingly on an almost a weekly basis, billions of dollars in fines, penalties & client reimbursements for its pre-crisis malfeasances. So according to Mohamed El-Erian, CEO of Newport Beach, Cal.-based PIMCO "The scope of activities that US banks *can* engage in has been dramatically reduced" (*which the big banks, of course, claim is going to hurt the economy by making markets less liquid*).
- Losing the war was the industry's own fault; for the public outrage about the regular news about interest rate rigging, fraudulent mortgage foreclosures & other unsavoury, if not illegal, activities became so widespread as to make it impossible for even the best of lobbyists to beat its effect on lawmakers. And while even the industry's most severe critics now concede at least a partial victory, they hasten to add 'at least for the moment' for the industry & it is trying to get indirectly what it failed to achieve directly by having the latest omnibus spending bill winding its way through the legislative maze contain a section that would underfund the banking regulators.

Wall Street seems increasingly intent on minimizing the damage, not reversing the trend, with many industry insiders actually happy to see the wings of Wall Street's "Masters of the Universe" clipped.

⁶ On January 16th it reported Fourth Quarter earnings of US\$1.72BN & of US\$8BN for 2013 as a whole vs. US\$4.9BN for 4Q/07 & US\$12BN for 2007 in its entirety.

NEWPORT BEACH \$100,000 LIFEGUARDS FEEL PENSION PINCH (BB)

- Orange County's Newport Beach, Cal. & its 87,000 citizens are best known for being home to PIMCO, a money management firm that, among others, manages the world's largest bond fund. Less well known is the fact that four of its municipal life guards in 2012 earned more than the city's median US\$109,677 household income⁷, with the result that 14% of the city's budget goes to employee pensions. So the city asked for RFPs from other governments & private sector parties, & now is considering the responses thereto, for contracting out the lifeguard services at its CORONA DEL MAR State Beach.

This is likely to become a more & more common occurrence with tax payers having little sympathy for the individuals whose lives would be affected.

CN ARGUED AGAINST SAFETY RULE (CP, Jim Bronskill)

- After the monumental oil tank car train derailment cum explosion & fire last summer in the Québec town of Lac Mégantic, Canada's Transport Minister issued an emergency directive to address safety deficiencies it had brought to light. It required two man crews on trains carrying hazardous goods & no such trains left unattended. A July 9th email from CN, the railway involved in the most recent headline-making derailment & fire of oil tank cars near Plaster Rock, NB objected to the latter, saying it would be "nearly impossible" since it had 520 trains start each day, three quarters of them with at least one car carrying dangerous goods⁸, & would require employees to remain on duty longer than union rules allowed. When the final safety rules were made public (on Boxing Day!) the 24/7 manning requirement had been dropped, with the union involved not objecting even though its National Safety Director said "They could very easily have someone babysit that train ... It's a matter of dollars and cents, really."

At the Plaster Rock derailment the railway on January 10th, three days after the event, 'added fuel to the still burning fire' with a controlled explosion, a not uncommon practice known as "vent & burn", of two still burning cars & one that wasn't on fire, to 'allow crews to move cars safely.

ISRAEL'S LIEBERMAN BACKS U.S. PEACE DEAL (DT, Alex Spillius)

- Avigdor Lieberman, founder & leader of the Yisreal Beiteinu (Israel is our Home) Party, (with 11 seats in the Knesset tied for fifth place with the Shas Party, he has leveraged its power & influence through its association the Likud, with 20 seats the Knesset's largest), has long been a hardliner & anti-Arab demagogue. In 2006 he called for the execution of Arab-Israeli MKs who had met with members of Hamas & long has called Mahmoud Abbas a "diplomatic terrorist". And his becoming Foreign Minister after the 2009 election was taken as a sign Israel wasn't taking peace with the Palestinians seriously.
- He appears a changed man. For he's promoting the deal being brokered by Washington as "the best proposal we can get", supposedly encouraged by John Kerry's willingness

⁷ This may be an apples & oranges comparison since it compares one individual's income with that of what often will be two-income families.

⁸ One would have thought that with that many trains it would have been a simple matter for a company as large as CN to keep the cost of this requirement down by having as many dangerous goods-carrying cars in as few trains as possible.

to consider an Israeli or international security force in the Jordan Valley & to expect the Palestinians to recognize Israel as a Jewish state. And in his first major interview after returning to the Foreign Ministry in November (having been acquitted of corruption charges *launched against him one month before the January 2013 elections after which Netanyahu ‘kept his seat warm’ by acting as his own Foreign Minister*), during a rehabilitation trip to London to meet with British Foreign Secretary William Hague, he opined it was “crucial” to maintain contact with the Palestinians at all costs, saying “We ... will ... continue to be neighbours. There are many problems on the ground, so this direct contact, this negotiation, these talks - it’s important to keep alive⁹ and maintain.”

This does not quite jive either with the January 10th announcement by the Israeli Housing Ministry of plans for 800 more housing units in the West Bank & 600 in East Jerusalem & Lieberman always having been unabashedly unrepentant about Israel’s “right” to expand what are illegal settlements under international law. And the part of the Jordan Valley the Israelis want to keep some sort of direct-, or indirect-, control over is part of the West Bank as defined by the 1967 borders, with some of its best farm land that produces much of Israel’s farm exports. And any form of control would give Israel control of the water in the Jordan River & prevent a Palestinian state’s overland access to the outside world, except on Israel’s terms.

CHINESE GENERAL ARRESTED FOR ‘GILDED LIFESTYLE’ (Al-Jazeera)

- Gu Junshan once was a PLA Lt-General & its influential Deputy Logistics Chief (*and as such in charge of its real estate holdings*). But he wasn’t seen in public for two years, *in February 2012 his name was removed from the Defense Ministry’s website, & rumours circulated he was under investigation. The latest news is he’s been arrested for getting kickbacks on the sale of PLA-owned land (in one case 6% on a US\$330MM transaction).*

It supposedly took 20 paramilitary officers & four trucks to haul away the loot from his home (a mansion that’s a replica of Beijing’s Forbidden City, where he hadn’t lived for years), incl. a solid gold statue of Mao & gold model boat, and many cases of imported liquor. And he owned dozens of 1,800 s.f. flats in upscale Beijing neighbourhoods he told investigators were intended as “gifts”. On January 14th President Xi Jinping, addressing the Plenary Session of the Communist Party’s Central Commission for Discipline Inspection¹⁰, the country’s anti-corruption body, promised a “no-holds barred corruption crusade”, telling Party officials “all dirty hands will be caught”. In 2012 a website created for whistle blowers generated 1.95 MM corruption allegations of which 172,532 were investigated, resulting in 182,083 party officials being disciplined. And since just last November 19 individuals at the rank of vice-minister or above have been disciplined, incl. the former watchdog of state assets & a former vice minister of public security. But his crusade net is starting to reach so far & so wide, and so high, that some people are starting to fear for Xi’s safety.

⁹ This may be a deliberate intent to confuse; for while optimists would take it as indicative of a desire to keep the talks alive to bring them to a successful conclusion, realists would be inclined to believe his track record suggests he may simply be expressing a belief that ‘the longer we talk, the longer we defer such an outcome’.

¹⁰ Since 2012 headed, as only the eighth incumbent since 1949, by 66 year-old Wang Qishan, since 2012 a member of the all-powerful Communist Party’s Politburo’s Standing Committee who in 2009 made Time’s list of the 100 most important people in the world & in 2011 Bloomberg’s 50, and who was highly regarded by former Secretary of the Treasury Hank Paulson (who in his 32-year career at Goldman Sachs visited China over 70 times and, in the process, befriended many of today’s China elite).

INDONESIA'S INNOVATIVE HEALTHCARE SCHEME (Al-Jazeera, Jack Jewson)

- In 2004 the Indonesian Parliament passed the Law on the Social Security System. But government dragged its feet on implementing it, *at least the universal part of it; for it introduced the Jamkesmas (a US Medicaid equivalent) program in 2005*; so in 2010 the Social Security Action Committee (KAJS), a workers' rights' advocacy group, sued the government for its laxity. As a result, effective January 1st, 2014, all of Indonesia's health insurance carriers have been organized under a single new Social Security Organizing Body (BPJS) that by 2019, when it is expected to cover every one of Indonesia's 247MM citizens, will be the world's largest such entity. While it will change little for those already covered, i.e. those well-off enough to pay for insurance or poor enough to qualify for Jamkesmas, it will be a boon for the 80 MM Indonesians whom policy analysts refer to as the "sandwich people". There will be only one serious drawback, people must pay out of their own pocket for getting to the doctor/facility they want or need.

There are of course the usual negativists. They fall into two categories, those who say the public hasn't been made sufficiently aware of the potential benefits to them so that 100% inclusion will be much harder to achieve than expected, & those who say the scheme's eventual cost has been underestimated (by up to 60%). But Jamkesmas hopefully will prove to have been an auspicious pilot scheme; for while during the 2005-2010 period the CPI was up 60% & the number of people covered by 129%, the Jamkesmas budget rose by just 130%, & actually declined marginally as a percentage of GDP (which some people would attribute to the efficiency of a single payer system) - the thought that the Indonesians might pull off such an endeavour more effectively than the Americans is almost too bizarre to contemplate.

CAN FRANÇOIS DO A GERHARD? (The Economist)

- While most people look at the risk to the Eurozone in the peripheral countries (Greece, Portugal, Spain & Italy), France may well be where they should be looking. Over the past 25 years the only EU member country with slower growth than France has been Italy. Its current budget deficit is bigger than Italy's & its current account deficit the largest in the Eurozone. But it's in comparison with Germany that things become really painful. Since the Euro's creation in 1999 France's per capita GDP has grown by 0.8% annually & Germany's by 1.3 % (*so the latter's by 2012 was 18+% higher than in 1999 & France's not quite 11%*). Its unit labour costs then were lower, but now are higher than Germany's. Its exports then were almost 60% of Germany's but now are less than 40%. Its unemployment rate is 11%, a 16-year high, & Germany's 5%, a 20-year low. While most Eurozone economies are picking up *some* steam, France looks headed for another recession. Rather than cutting public spending (at 57% of GDP the highest in the Eurozone), Hollande hiked taxes. Rather than properly reforming the pension system, he lengthened the contribution period. Rather than copying the deep structural reforms undertaken in the peripheral countries, he merely played at liberalizing labour & product markets, and social welfare spending that is the highest in the Eurozone.
- And all of it has gotten him nowhere; for he now is the least popular President in the life of the Fifth Republic & his failure to introduce serious reforms is causing German taxpayers, & *justifiably so*, to ask why they should help France if France doesn't want to help itself. But he now seems to have come to realize that with his country so deeply in debt he cannot spend his way out of trouble & has no option but radical reform; at least in his New Year's message he spoke seriously about the need to cut taxes & spending.

The Gerhard the headline refers to is Gerhard Schroeder; a socialist like Hollande, from 1998-2005 he headed a pronounced left of centre German government but nevertheless managed to push through social welfare spending-, tax-, & labour reforms, that Chancellor Merkel has reaped the rewards from ever since (although she is now in bed with a less pragmatic Social Democrat lot). And while the good news part of the story for Hollande is that he has until 2017 until he has to face the electorate, the bad news is that reform now may be too little, too late, and between now & 2017 there may occur a serious polarization of the French electorate between an extreme Right seeking to restore traditional values facing off against an Extreme Left, many of whose members have little, if any, stake in French society and/or not give a fig for traditional values, who between them could literally put some of the cities' banlieues on fire.

SCANDINAVIAN DEBT CRISIS IS WAITING TO HAPPEN (BB, Peter Levrin)

- That's what Nobel Laureate Paul Krugman told an interviewer in Copenhagen on January 9th, saying "You wonder if that's a crisis waiting to happen ... I'm not sure, but it is nervous-making." The reason for his concern is that, while the Scandinavian countries' governments have debt loads less than half the Eurozone's average, & Norway, because of its sovereign wealth fund, has no net debt at all, due to inflated house prices in Denmark the household debt-to-income ratio is a world record 321% (which the OECD said last November 'demands a policy response'), Norway's is 200%, & Sweden's 180% (which both its government & central bank having declared 'cannot be allowed to rise further').
- As Krugman put it, "You'd think that if you survived the financial crisis without major damage you're okay, but you're not." (or better still, 'you'd better not be overconfident').

Canada isn't too far behind with a yearend ratio of 170% & forecasts it will grow another 4% this year. And crises often come forth from unlikely places like thunderclaps on sunny days (with everyone after the fact wondering why they didn't see it coming when with the benefit of 20-20 hindsight it was so self-evident).