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The anti-Silverstein cartoon in the Nationalist website.

Up in smoke

By Sara Leibovich-Dar

Six weeks before the terrorist attack in New York, Larry Silverstein leased the Twin Towers for 99 years, paying \$3 billion. Their collapse was also the collapse of the deal of his life, and since then, he has been trying to put the pieces back together in the face of fierce public criticism, some of it anti-Semitic. His business dealings in Israel haven't given him much satisfaction either

Shortly after the events of September 11, Prime Minister Ariel Sharon called Larry Silverstein, a Jewish real estate magnate in New York, the owner of the World Trade Center's 110-story Twin Towers and a close friend, to ask how he was. Since then they have spoken a few more times. Two former prime ministers - Benjamin Netanyahu, who this week called Silverstein a "friend," and Ehud Barak, whom Silverstein in the past offered a job as his representative in Israel - also called soon after the disaster. Yaakov Terner, the mayor of Be'er Sheva, sent a letter of condolence.

Many Israeli politicians are acquainted in one degree or another with the 70-year-old Silverstein. For 10 years, he tried to bring about the establishment of a free-trade zone in the Negev, until the project fell apart. "This is a tragedy," Silverstein, deeply disappointed, said then.

Now he has bigger troubles. The collapse of the Twin Towers after being rammed by terrorist-piloted planes, in addition to being a full-scale American tragedy, shattered the dream of Silverstein's business life, caused him immense losses, and thrust him into the midst of a public battle over whether to rebuild the towers.



Six weeks before the events of September 11, Silverstein leased the Twin Towers and buildings No. 4 and 5 of the WTC complex for 99 years from the Port Authority of New York and New Jersey. He agreed to pay \$3.2 billion for the

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properties. Becoming the owner of them, on July 24, was the high point of his career and marked the end of a grueling quest.

In February of this year, five days before the bids in the privatization process were due, Silverstein was injured in a road accident. In April he was informed that he had lost the tender. A few weeks later, though, events took a surprising turn. The winner of the tender dropped out, leaving Silverstein and his partners in Westfield America, who had finished second, as the new winners. Worn out but happy, Silverstein was photographed in the New York sun holding the symbolic keys to the towers, and spoke of a dream that had come true.

On September 11, his world lay in a six-story heap of ruins. Above all, four members of his staff were killed and he himself was saved only because a meeting he had scheduled that morning with officials of the Port Authority on the 88th floor of 1 World Trade Center (the south tower) was canceled at the last minute.

From his home on Park Avenue, he watched the results after the first plane slammed into the north tower. He rushed to his office on Fifth Avenue, from where he saw the second tower hit. He was terrified for the fate of his children, Roger and Lisa, who sometimes worked in his offices at 1 WTC. One of his employees, a woman, who survived by walking down 88 flights of stairs, arrived in the Fifth Avenue office covered in dust. There she found Silverstein shaking in every bone of his body. I see that you're in worse shape than me, she told him.

In the afternoon of September 11, the Fire Department informed him that the smaller 7 World Trade Center building, which he owned, was going to collapse. It did so at 5:30 P.M., followed by buildings No. 4 and 5. Silverstein, who only six weeks earlier had carried out the largest real-estate transaction in the history of New York, was left with nothing. It was also the worst timing ever in American history for a business deal, the press said afterward.

The buyer continues to pay

The full economic consequences of the attacks became clear only later. Upon signing the contract, Silverstein paid the Port Authority \$616 million. He undertook to pay the rest, with the addition of about \$100 million in each of the next 10 years, even if something happened to the buildings. Silverstein is continuing to pay his debt to the Port Authority, but is no longer receiving rent from the firms that leased office space there. He told his friends in Israel not to worry because the insurance companies would pay. But that is not so simple.

Silverstein insured the towers for a \$3.5 billion against any claim. He maintains that the towers were hit in two separate incidents, and therefore expects to receive compensation of \$7 billion. The insurance companies maintain that there was only one event and are ready to pay only \$3.5 billion.

In addition, he is threatened by a tidal wave of lawsuits. Minutes after the first plane rammed the north tower, the public-address system in the south tower informed the panic-stricken employees in the south tower to return to their places and continue to work as usual. Those who obeyed the directive were killed. Lawyers say that Silverstein, who was responsible for the buildings' operation, could face negligence suits.

In the first hour after the attack, Silverstein was paralyzed with fright. A few hours later, he issued an emotional statement that ignored the economic implications of what had happened, focusing on grief and pain over the loss of life in the terrible tragedy.

Two days later, the tone had changed. Silverstein's spokesman, Steve Solomon, told the Reuters news agency that Manhattan is a world commercial center, and that Silverstein thinks a business district of the same area as the one that was destroyed should be rebuilt. From that moment, Silverstein launched a campaign to restore his property - a campaign that is generating public opposition and mounting criticism.

In the public debate that is being conducted in the United States over how to rehabilitate the area that was ravaged, Silverstein is presenting a clear position. In the first days after the attack, he said he would build two identical towers of 110 stories and 3.6 million-square meters. More recently, he has been talking about building four towers of 50 stories each, covering the same area as the Twins. If he builds smaller buildings, his revenues from leasing office space will be reduced accordingly.

Silverstein is waging his campaign at full tilt. On the day following the communique released by his spokesman, he gave an interview to The Wall Street Journal. It would be the mother of all tragedies if this part of New York is not rebuilt, he said, it will give the terrorists the victory they are seeking. The city

normalizing ties

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is not dead and it won't allow itself to die, he said: "We owe it to our children and our grandchildren." He also promised that in the future design, special areas would be set aside in memory of those who were killed.

In the meantime, Silverstein found himself in a sensitive legal situation. In August, a three-month overlap period with the Port Authority began. Sources in the Port Authority intimated that even though they were still in the vicinity, Silverstein was in control. Silverstein, for his part, reminds everyone that even though the towers belonged to him, the land belongs to the Port Authority. He wants to build as quickly as possible.

Raring to go

Silverstein was brimming with energy at a real estate convention held at the Waldorf Astoria last week. He intends to start rebuilding 7 WTC within about a year. At this time next year, girders will already be rising out of the ground, he said. Construction will be completed within 30 months. Construction of the new Twin Towers will be completed in another six years. The Port Authority can't understand why Silverstein is in such a hurry. The governor of New York State, George Pataki, told reporters that he is angry at Silverstein for talking publicly about rebuilding before the state and the Port Authority have decided what to do. Silverstein has no time. The insurance companies will pay compensation for the destruction only if he restores the situation to what it was.

The public debate over the future of the area is not taking Silverstein's insurance problems into consideration. Some 6,000 families regard Ground Zero as a sacred site, Hans Butzer, who designed the museum in Oklahoma City, told The Chicago Tribune. (On April 19, 1995, a car bomb exploded in Oklahoma City and destroyed the Federal Building, killing 168 people. A museum, which features an exhibition outside consisting of 168 metal chairs, one in memory of each of the victims, was built at the site.) All the families will have to be heard before concrete is poured, Butzer said.

Silverstein told his friends in Israel that for the next five years, he will be busy rehabilitating the site. It's the last project of my life, he explained to an Israeli acquaintance. To advance his project, Silverstein needs the support of politicians. He has paid three visits to Washington since September 11. As the largest private donor to Hillary Clinton, he has an open door to the office of the junior senator from New York. Other senators who received hefty donations from Silverstein have said that they are in favor of the project at Ground Zero.

Silverstein has meanwhile been targeted by anti-Semitic hate-mongers - particularly on the Internet. The Nationalist site, run by a racist group that advocates a "white America" and makes use of neo-Nazi symbols and terminology, claims that Silverstein is exploiting the collapse of the Twin Towers in order to extort funds from the government. A cartoon on the site, captioned "Whose homeland?", portrays Silverstein in the stereotypical guise of the hook-nosed Jew extending his hand to President Bush in order to take money. The frightened Bush agrees but wonders why Silverstein isn't willing to make do with \$100 billion.

An optimist and a gambler

Larry Silverstein's road to the purchase of the WTC complex and to his friendship with Israeli prime ministers and American senators was long and tortuous. He was born in New York and has lived and worked in the city his whole life. His father owned a small leasing firm. Silverstein joined the family business in 1952, after graduating from college. It was hard to make ends meet, he told Crain's New York Business, an on-line magazine, in May. They subsisted on the salary of his wife, Clara, a schoolteacher, who earned \$3,200 a year.

The couple had three children: Roger, Sharon and Lisa. Roger and Lisa work in the family business, Silverstein Properties. In March of this year, Lisa told The New York Times that she hoped her daughters, too - they are now eight and 10 - would work in the company as well.

In 1953, after Silverstein observed the lawyers in his father's office sewing up and unraveling business deals, he decided to study law. At law school in Brooklyn he met Bernie Mendik, who married his sister, Annette, and became a business partner. At the end of the 1950s, the Silversteins and Mendik decided to buy buildings instead of leasing them. With a bank loan, they bought a loft on 23rd Street and also asked the small merchants in the area to invest a few dollars in the purchase. The transaction was successful and the investors asked them to expand the business.

They continued to buy properties in various parts of the city. An especially profitable deal involved 711 Fifth Avenue, which they bought in 1977 from Columbia Pictures for \$11.5 million and sold six years later to Coca-Cola for

\$57.6 million. Just when business was thriving, the Mendiks decided to get a divorce and the business partnership was dissolved.

After the break, Silverstein decided to move up a notch. In 1980 he bid successfully for the construction rights to 7 World Trade Center, but for the next four years, he had trouble finding anyone to lease or buy office space in the projected building. In 1984, he decided to build, even though he had no tenants lined up. It's not for nothing that others in the profession call him an incorrigible optimist and a gambler by nature. In 1985 the gamble turned out to be successful. The investment firm of Solomon Inc. agreed to lease half the office space in the building. A short time afterward, the company informed Silverstein that it was canceling the deal.

"I thought I would die," Silverstein related. His wife, though, told him it was better that way; that's how it was meant to be.

Bizarre lawsuit

In 1987, Solomon Inc. decided to lease office space in the building after all, and signed a contract. Then everything went haywire again. The slowdown in construction, which had hurt most of the major entrepreneurs in New York, got to Silverstein, too. He had a hard time repaying loans and was forced to sell properties.

In 1993, he became entangled in a lawsuit. Harry Miller, a Vietnam War veteran, sued Silverstein, who owned the Runway 69 dance club in Queens, for his alleged involvement in the trafficking of heroin. Also on the list of defendants were Richard Nixon, Bill Clinton, Ross Perot and Colin Powell, who were alleged to have perpetrated acts including serial murder for 25 years, since the war in Vietnam, as part of a conspiracy to distribute heroin. In January 1994, a New York court threw out the suit; an appeal by Miller was later rejected.

Although the bizarre suit was not reported in the press, it bothered Silverstein. Information about it reached Israel. Opponents of the free-trade zone in the Negev said that Silverstein, who was involved in illicit business in New York, should not be allowed to be part of the Israeli project. It was not until the late 1990s that Silverstein began to recover. The leasing of the WTC properties was to be the climax of his life.

Why was he so eager to get the WTC contract, he was asked a week after the terrorist attack on NBC Television's morning show. Silverstein, tearful, holding the contract in his hand, replied that it had been his dream from the moment he completed the construction of 7 WTC. He looked up at the towers, he recalled, and felt an uncontrollable urge to own them. In another interview, he said that the 47-story building No. 7 looked like a peanut next to the Twin Towers, and he didn't want another peanut.

Free trade in the Negev

Like everything in his life, the leasing of the towers was also a rough ride for Silverstein. He made the final preparations for the bid from his hospital bed, after a drunk driver hit him five days before the bids were due. Silverstein was positive he would win: He was close to local politicians, he had donated \$15,000 to the campaign of Governor Pataki. His business relations with the Port Authority were very good. After the car bomb attack at the Twin Towers, in 1993, Silverstein gave the Port Authority offices at 7 WTC in place of those that were damaged in the explosion.

After Silverstein lost and - when the winning firm backed out - was declared the winner in the bidding, he ran into problems with the Port Authority. A bitter argument broke out over the size of the first payment: The Port Authority wanted \$800 million; Silverstein was willing to fork over no more than \$616 million. Some of the Port Authority directors wondered whether Silverstein, who was just getting back on his feet after the real-estate crash, would be capable of operating the WTC properties, and demanded that the negotiations be broken off.

Finally, to prevent embarrassment (the Port Authority was afraid of a public backlash if talks with a second entrepreneur were broken off immediately after the first debacle), the decision was made to sign with Silverstein. Silverstein was delighted. He raised the rent of most of the towers' tenants by 40 percent. Financial analysts said he would reap a profit of \$40 million in the very first year. Life seemed better than ever.

His friends in Israel were happy for him. Silverstein has ties of various kinds in Israel. He is a donor to Tel Aviv University and to the Tel Aviv development foundation. He held a few fundraising events at his home in New York for the foundation with the participation of the then-mayor of Tel Aviv, Roni Milo. Silverstein is a nice guy and a pleasant conversationalist, not like most rich

Americans, Milo says.

Silverstein is also a member of the joint American-Israeli commission for housing and community development, which was established by former president Bill Clinton. In the early 1990s, he was involved in projects to build housing for new immigrants. The Israeli political world got to know Silverstein when he tried to create a free-trade zone in the country. He became friendly with Yitzhak Rabin, Benjamin Netanyahu, Ehud Barak and Ariel Sharon.

Ahaz Ben Ari, a former legal adviser in the Prime Minister's Office and the chairman of the Free-Trade Zones Council, remembers Silverstein as being "not easy to deal with, a hot-tempered type who spoke aggressively to the prime minister. He had the feeling that he was going to save the Negev and the homeland, but was not getting the response he deserved."

Silverstein conceived the idea of creating the free-trade zone in 1989. He met with Shimon Peres, who was then the finance minister, and with his deputy, Yossi Beilin, and tried to convince them that the project was an urgent necessity. The idea was that he would be given land in the Negev and would establish tax-free industries there. The Negev would benefit by getting new jobs, and Silverstein would benefit by raking in plenty of money. Peres and Beilin objected: Free-trade zones of the kind envisaged were usually created in the Third World and had the reputation of being slave markets. The local workers earn starvation wages, while the entrepreneurs enjoy full tax exemption and make high profits.

Silverstein did not give up. The economic difficulties he encountered in New York forced him to look for an additional source of revenues. In September 1992, he met in New York with the new finance minister in the Rabin government, Avraham Shochat, and again raised the idea of the free-trade zone, claiming it would create 20,000 new jobs and make the Negev flourish. With Silverstein were his partners in the investment group, Larry Tisch, the owner of CBS, and Sy Sims, a major New York discount retailer.

"I formed a very good impression of them," Shochat recalls. The investors, however, were somewhat less impressed with Shochat. David Yerushalmi, from the West Bank city of Ma'aleh Adumim, who was their representative in Israel, writes on his Web site that Shochat had no understanding of economics, business or free markets. What impressed him was the fact that a group of leading Jewish businessmen wanted to invest without asking for anything in return.

The prime minister, Yitzhak Rabin, also supported the project, Yerushalmi notes, and he then put pressure on Shochat. However, Shochat didn't want to make the decision alone. He set up a commission headed by Yoram Gabai, the director of the State Revenue Administration, to examine the implications of establishing a free-trade zone. Gabai was against the initiative.

"I took a negative view of creating a zone like this of any kind," he says. "The sponsors wanted to create an island, which would be free of all the country's laws. That contradicted our basic approach, which espoused the homogeneity of the system. We rejected the idea outright."

Silverstein didn't like Gabai's report and tried to get it changed.

"One day, I was summoned urgently to the office of Yitzhak Rabin," Gabai recalls. "I was wearing a plain shirt - I had no idea I would be called in to the prime minister. I found a few American investors there, all wearing suits and ties, who had arrived on a private flight from New York and were going back that same day. They wanted to know why I had written what I had written."

"I explained to them that a zone of the kind they wanted was suitable for backward countries, but not for a developed country like Israel. I told them that in the end, the zone would become a money-laundering center and that no one apart from lawyers would make a profit from it."

Shochat and Rabin ignored Gabai's report and set out to enact legislation that would make the Americans' initiative a reality. In October 1993, the government submitted a bill to establish free-trade zones in Israel. Its terms were the fulfillment of every investor's dream. In countless conversations that Silverstein and his representatives conducted beforehand with cabinet ministers and Knesset members, they emphasized that Israel would not have to invest a cent in the project, but the bill stipulated that the government would underwrite infrastructure costs up to the boundary of the free-trade zone, and would also expropriate land.

No special qualifications were demanded of the franchisee, apart from the vague requirement that he be capable of managing the zone. The benefits were enormous. For 20 years, which could be extended for an additional 20 years, the

franchisee would be exempt from payment of all taxes, customs and levies. Most of the Israeli labor laws would not apply to those who worked inside the free-trade zone. The chairman of the Histadrut federation of labor, Amir Peretz, who submitted a private bill on the same subject, supported the initiative, he says, "because they promised 20,000 new jobs. From the point of view of the Negev, that could have been a welcome change."

Bowing to pressure

For about half a year, from the time the bill was submitted until it was enacted into law in June 1994, Silverstein and his representatives met with all the relevant MKs and cabinet ministers. "We fought a major campaign," says Dafna Barak, director-general of the Free Trade Zones Council. "We did everything except to lie down in front of the prime minister's door."

Their efforts produced results. The bill became law on June 20, 1994. Support for the free-trade zone cut across political parties. The debate in the Knesset before the second and final readings was a demonstration of support for the American millionaire.

Amir Peretz explained that, "With this track, we have the opportunity to assist and approach the entrepreneurs in the belief that they are not out to cheat anyone. We must not take a narrow view of the sponsors, because only an entrepreneur who makes a profit is one from whom we can later demand that he improve the workers' wages."

MK Michael Eitan (Likud): "If these investors and capitalists make a profit and don't pay taxes on it, what's wrong with that? It's true that they will make a profit, but I don't begrudge them that profit."

The party ended when senior Treasury officials argued that the law posed a threat to the stability of the economy and set out to amend it. In the original version, the companies involved received full tax exemption, whereas in the amended version only industrial firms were given that sweeping exemption. Instead of a majority in the regional council, as the original wording stipulated, under the amendment the representatives of the franchisees had only one seat on the council.

Silverstein fumed. He wanted the whole package - "but that would have created serious distortions in the economy and would have put our reputation at risk and created a tax haven," says Shochat, who was torn between political pressure and the good of the economy.

"The initial idea for the project came from a warm Jewish heart," says Ahaz Ben Ari, "but when they started making more and more demands, we said enough, there is a line we mustn't cross, even if the price is the salvation of the Negev. Anyway, it's far from certain that the Negev would have been saved."

The assassination of Yitzhak Rabin gave the American group new hope for their project. Silverstein asked Colette Avital, then Israel's consul-general in New York, to set up a meeting for him with Shimon Peres, who succeeded the slain Rabin as prime minister.

"My ties with Silverstein grew closer when I tried to get Shochat to give the matter second and third thought, and to give the free-trade zone a chance," Avital recalls.

Peres met with Silverstein, but remained adamant in his objections. Silverstein was furious.

"People barely listened to him, officials insulted him," Dafna Barak says. "I love the project and what happened just made me eat my heart."

Close ties with Netanyahu

The ascension to power of Benjamin Netanyahu opened a new chapter in the saga. Silverstein is left-leaning in his political views - he supports the Democratic Party - but after despairing of Rabin and Peres, he believed that Netanyahu, whom he called a hero of the free market, would push the project forward.

The two have been on friendly terms since Netanyahu's stint as Israel's ambassador to the United Nations. For years they kept in close touch. Every Sunday afternoon, New York time, Netanyahu would call Silverstein. It made no difference what the subject was or where Netanyahu was, he would always call, Silverstein told an Israeli acquaintance. Their ties continued after Netanyahu became prime minister. They met several times and Netanyahu promised to give the project his support.

The obstacle was now the new finance minister, Dan Meridor. He met with Silverstein and told him he was against the idea: "I don't believe in that system," Meridor says. "If a free-trade zone is such a great idea, why not do it throughout the country? And then who will pay taxes?"

Netanyahu succeeded in bypassing the treasury and getting a decision passed in the Knesset, according to which the free-trade project would be under the responsibility of the minister of national infrastructure. The official reason was that Yaakov Ne'eman, who had replaced Meridor as finance minister, had previously been the project's legal adviser, and could not now handle the matter.

The debate in the Knesset on this transfer of authority, which took place in July 1997, was an embarrassing show of capitulation to the demands of the money-man. MK Ze'ev Boim (Likud) said he thought it was the intelligent step to take and the right time to do it. The transfer of authority is a cardinal national matter, said MK Roman Bronfman (then a member of Yisrael b'Aliyah). MK Shmuel Halpert (United Torah Judaism) noted that it was especially important for the powers in question to be placed in the hands of the national infrastructure minister, Ariel Sharon, who will be able to contribute enormously to the law's implementation.

Sharon did, in fact, contribute substantially. A few weeks after the debate in the Knesset, he ordered funds to the tune of NIS 6 million to be transferred to the project and promised that another nine million would follow. In April 1999, he proposed that the law be revised again to permit commercial firms to benefit from the full tax exemption, too, as Silverstein wanted.

However, Sharon's initiative was stopped dead in its tracks by the elections of May 1999. Still, the change of government did not look ominous to Silverstein - on the contrary. He was friends with the new prime minister, Ehud Barak, too. In 1995, when Barak left the army, Silverstein offered him the job of acting as his representative in Israel, hoping that the former chief of staff, with his ramified connections, would be able to push the project through. Barak turned down the offer, but continued to stay in touch with Silverstein. They met at various social events and Barak introduced him to some of the members of his family.

Silverstein had another close contact in Barak's bureau in the person of Isaac Herzog, who handled Silverstein's legal affairs along with Yaakov Ne'eman. "I didn't touch the subject during my period as cabinet secretary," Herzog says. None of this stopped Barak, after his election as prime minister, from trying to help Silverstein advance the project.

"They came to Barak," says Shochat, who was then the finance minister again. "Barak examined the subject with all kinds of confidants and also talked to me about it. I told him that I was vehemently against it."

Barak drew on the help of Yaakov Turner, the mayor of Be'er Sheva, the "capital of the Negev," who was an ardent supporter of the free-trade zone.

"Silverstein gave me speeches from which I understood that he had better investment potential in other parts of the world," Turner says. "He presented a Zionist aspect. I supported the idea because I thought I had to find an opening anywhere we had an opportunity for thousands of jobs." They met in New York. "I tried to persuade him not to despair and to keep the ember burning," Turner recalls.

In May 2000, when his business in New York started to recover and after he understood that Barak was busy with other things and wouldn't go the extra mile for him, Silverstein announced that he was dropping the initiative.

"As a result of this experience," the tycoon was reported as saying in The Jerusalem Post (May 18, 2000), "We've learned something: Don't try to do business in Israel, certainly don't do business with the government because you'll get killed. I'm never going to do this again. The sad thing is that this has turned off so many potential American businessmen from doing business in Israel. And that's a tragedy."

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