

(Updates with bomb shelter drills in fifth paragraph, credit-default swaps in eighth.)

By Calev Ben-David

Aug. 15 (Bloomberg) -- Dozens of Israelis crowded in front of a storefront at a Jerusalem shopping mall yesterday to pick up new gas masks, part of civil defense preparations in case the military strikes Iran and the Islamic Republic or its allies retaliate.

"Our leaders seem to have gotten very hawkish in their speeches and this time it seems they mean what they say," said Yoram Lands, 68, a professor of business administration, who was picking up new masks for himself and his wife at a distribution center in the mall.

Prime Minister Benjamin Netanyahu told visiting U.S. Defense Secretary Leon Panetta on Aug. 1 that time "is running out" for a peaceful solution to Iran's atomic program. The Tel Aviv-based Haaretz newspaper reported Aug. 10 that Netanyahu and Defense Minister Ehud Barak are considering bombing Iran's nuclear facilities before U.S. elections on Nov. 6. Mark Regev, Netanyahu's spokesman, said government policy is not to comment on media speculation.

"It seems that Netanyahu and Barak are making a special effort now to prepare the Israeli public for an attack on Iran," said Shlomo Brom, a former commander of the army's Strategic Planning Division, who said any strike could come within the next six months. In the past, rhetoric was directed at pushing the international community to take stronger action against Iran, said Brom, a senior research fellow at the Institute for National Security Studies at Tel Aviv University.

New System

While Israeli leaders repeatedly have said they could strike Iran's facilities, the words are now being accompanied by civil-defense measures, including a new system that uses text messages to alert the public to missile attacks, wider distribution of gas masks and the appointment of a new Home Front Defense minister. Schools in the north will hold bomb-shelter drills to prepare for possible rocket attacks when they open later this month, the Yedioth Ahronoth newspaper reported today, without saying where it got the information.

The threats also come as nuclear talks between Iran and world powers have stalled and increased sanctions have so far failed to stop Iran's atomic progress.

Concern that the Israeli moves may herald a possible strike helped weaken the shekel to its lowest value in almost 15 months this week and pushed the Tel Aviv Stock Market to a three-week low on Aug. 13. The Bloomberg Israel-US Equity Index of the most-traded Israeli companies in New York sank the most in three months, making the benchmark gauge the cheapest in two years relative to the Standard & Poor's 500.

Credit-Default Swaps

The cost of insuring Israel's debt rose today, with five-year credit-default swaps increasing to 155, the highest level in more than two weeks, according to data provider CMA, which is owned by McGraw-Hill Cos. and compiles prices quoted by dealers in the privately negotiated market.

"With the headlines and saber-rattling we've had the last week, there is a higher risk premium, so it's logical you see the currency weaken," said Jonathan Katz, a Jerusalem-based economist for HSBC Holdings Plc.

U.S. officials, concerned that a conflict could destabilize the region and send oil prices soaring, have been urging caution. Panetta told reporters yesterday the "window is still open" to resolve the

dispute through diplomacy and that he thinks Israel hasn't made a decision "at this time" to attack Iranian nuclear sites.

U.S. Cooperation

David Rothkopf, a visiting scholar at the Washington-based Carnegie Endowment for International Peace, said it is "extremely unlikely Israel could do anything without a regional ally or the cooperation of the U.S."

Iranian officials have dismissed the threats of an attack.

"We don't think any of the officials in this illegitimate regime wants to do something as illogical as this," Ramin Mehmanparast, Iran's Foreign Ministry spokesman, told reporters at a Tehran press conference yesterday. Iran says its nuclear program aims to produce electricity for a growing population.

Amid earlier Israeli threats, the U.S. and its European allies passed tougher sanctions against the Islamic Republic that have been taking a toll on the country's economy.

Oil Production

Iranian oil production has declined 20 percent this year to 2.86 million barrels a day, according to data compiled by Bloomberg. Crude oil futures in New York have advanced 19 percent in the seven days ending Aug. 7 as Iranian exports have fallen, according to an Aug. 10 report of the Commodity Futures Trading Commission's Commitments of Traders.

Prices of meat, rice and bread have spiraled in Iran as inflation accelerated to 22.4 percent in the 12 months through June 20.

There are concerns that repeated Israeli threats to strike Iran may force Israel's hand if the West doesn't take more serious action.

The Israelis are "almost in the comic situation of threatening to strike repeatedly -- this is the third threat in three months -- but nothing ever happens, which in my view is damaging to their credibility," said Aaron David Miller, a former State Department official and a senior fellow at the Atlantic Council, a Washington policy group.

Barak in February said that Israel would need to act militarily within months, before Iran reaches a "zone of immunity" where its underground enrichment facilities would be invulnerable to Israeli air strikes.

'Radio Silence'

Isaac Herzog, a parliament member from the opposition Labor party, criticized the government for creating the impression of an imminent attack.

"If Netanyahu and Barak are serious about the subject, they should maintain 'radio silence' about it, and Netanyahu should meet with Obama in the White House to discuss it," Herzog told Israel Radio.

Polls show the Israeli public's opposition to a strike has been easing. Some 46 percent of Israelis are against an attack on Iran without U.S. support, according to a poll by the Dialog Institute reported on Channel 10 on Aug. 12. That compares with 58 percent opposed to such a move in a survey by Dialog published on March 8 in Haaretz. Both surveys questioned 500 Israeli adults.

Matan Vilnai, the outgoing home front defense minister, said the ministry has prepared for a scenario in which hundreds of rockets fired by Iran and its allies fall on Israel, the Maariv newspaper reported.

'Closing Window'

“The evaluations are that the war would last 30 days on several fronts,” Vilnai said, according to Maariv. The number of Israeli fatalities are estimated at about 500, “maybe more, maybe less,” he said, according to Maariv.

U.S. presidential elections may influence an Israeli decision.

Israelis “believe there’s a closing window of opportunity, and they also believe politically it’s far more complex if they wait until after November to strike,” said David Makovsky, director of research at the Washington Institute for Near East Policy. “I think they’re concerned that if they attack during a lame-duck period they have a lot more uncertainty about American reaction.”

An attack would also come as one of Iran’s closest allies, Syria, is busy battling domestic insurgents who control parts of the country’s cities and countryside. That also has weakened Lebanon’s Hezbollah movement, an Iranian ally that depends on Syria for arms and support.

“This is the best window Israel is going to get,” said Gerald Steinberg, professor of political science at Bar Ilan University outside Tel Aviv. “If a strike doesn’t happen in the next six months and Iran doesn’t back down, then the Israeli threat will lose its credibility.”

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--With assistance from Gwen Ackerman in Jerusalem, Sharon Wrobel in Tel Aviv, Ladane Nasser in Dubai and Nicole Gaouette and Tony Capaccio in Washington. Editors: Louis Meixler, Jennifer M. Freedman, Riad Hamade.

To contact the reporter on this story:

Calev Ben-David in Jerusalem at +972-2-640-1105 or cbendavid@bloomberg.net

To contact the editor responsible for this story:

Andrew J. Barden at +971-4-364-1057 or barden@bloomberg.net