**Settlement deal close, says Israel**

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Israel on Wednesday said it was nearing a compromise deal with the US over American demands for a settlement freeze, which would pave the way for a resumption of peace talks with Palestinians.

In London, Benjamin Netanyahu, Israeli prime minister, also expressed optimism that Israel and the Palestinians would "shortly be able to resume normal talks" on political, security and economic issues. On Sunday, he said he hoped talks would resume by the end of September.

He was apparently alluding to the possibility of a tripartite summit between himself, Barack Obama, US president, and Mahmoud Abbas, the Palestinian president, at the end of September either at the UN General Assembly in New York or at the G20 meeting in Pittsburgh.

But Mark Regev, a spokesman for Mr Netanyahu, told reporters ahead of the Israeli leader's meeting in London with George Mitchell, the top US envoy to the Middle East, that Israel was sticking to its position that some construction would carry on in the occupied West Bank.

"We are getting closer to common ground," he said.

While no new settlements would be built, he said, expansion of existing communities that would allow for "normal life" to continue would be pursued.

Any limits on building homes would also exclude Jerusalem, where Mr Netanyahu supports the continued expansion of Jewish settlements in Palestinian neighbourhoods.

The US has remained silent on the details of negotiations with Israel but its stated position has been that it wants a freeze on settlements, which are illegal under international law.

Claims of an American willingness to compromise in the face of Israeli resistance is certain to alarm Arab states and trouble the Palestinian Authority, which says a freeze must precede the resumption of talks on a peace agreement.

"I doubt very much the Americans would be willing to accept such conditions for the resumption of peace talks," Hossam Zaki, Egyptian foreign ministry spokesman, said yesterday, referring to a partial settlement freeze. "We believe that the administration is holding on to the positions it expressed previously [over settlements]."

The Obama administration is expected to unveil its plans for Middle East peace in the next few weeks. But Mr Mitchell has been struggling to convince Israel to stop settlement expansion and Arab states to start normalising relations with the Jewish state in return.

While some Arab states say they would be willing to make gestures towards Israel if it agreed to a complete settlement freeze, Saudi Arabia has insisted that peace must be achieved before any steps are taken towards normalisation.

Mr Netanyahu, meanwhile, has sought to negotiate over the American demands in a series of meetings with Mr Mitchell.

But he has also attempted to downplay the significance of settlements in the broader pursuit of a resumption of peace talks, instead blaming the Palestinians for the deadlock.

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