

**PERES AND THATCHER DISCUSS NEW IDEAS
TO BREAK MIDEAST PEACE STALEMATE**

By Maurice Samuelson

LONDON, Jan. 22 (JTA) -- Israeli Premier Shimon Peres met British Prime Minister Margaret Thatcher for an hour this morning and said they discussed new ideas to break the Middle East peace stalemate.

Peres said after the meeting: "I think some new ideas were raised which are worth examining." He added: "Time is running out and there is a need to take additional steps."

The talks with Thatcher and Sir Geoffrey Howe, the Foreign Secretary, came on the first day of Peres' five-day visit. The only previous official visit here by an Israeli Premier took place in 1977 when the newly-elected Menachem Begin met then-British Premier James Callaghan.

Peres arrived from Holland under close security last night amid heightened diplomatic activity over the Middle East. Shortly before his arrival, King Hussein of Jordan left Britain after one of his frequent private visits. His departure ended speculation that he and Peres might hold a secret meeting here.

Both men, however, were in contact through the good offices of U.S. Assistant Secretary of State Richard Murphy, who will meet Peres tonight for the second time in four days. On Sunday, he met with Peres in Holland following a meeting with Hussein in London Saturday.

Thatcher, a member of the Conservative Friends of Israel and a personal friend of King Hussein, is also in a position to play a mediating role, having met the Jordanian King during his latest visit.

Some Of The New Ideas

Some of the new ideas discussed at her meeting with Peres this morning were expected to be spelled out publicly later today when the Israeli Prime Minister delivers a key political lecture at the Royal Institution of International Affairs.

It is expected to be along the lines of an article Peres wrote in The Times of London suggesting ways to exploit "the signs of a promising opening in Jordan." Step one, Peres wrote, would be for all sides to renounce the use of violence.

"All states concerned could then convene around a negotiating table in any location mutually agreed upon. In this spirit, I reaffirm my willingness to go to Amman for the first round of talks," Peres said. The negotiations should be direct and free of external pressures and preconditions, he stressed.

On the thorny issue of Palestinian representation, Peres did not explicitly veto official representatives of the Palestine Liberation Organization. Instead he said: "We have recognized the right of non-PLO Palestinians to participate in the negotiations. These mutually agreed representatives would be an integral part of the Jordanian-Palestinian delegation."

He also sounded somewhat flexible on the framework of the negotiations, saying Israel welcomed the support of all states in efforts to reach a peace treaty. He called on all permanent members of the UN Security Council to help promote direct negotiations even through an international forum if need be. But he made clear that this depended on the Soviet Union's agreement to restore diplomatic ties with Jerusalem.

Attempting To Seize The Diplomatic Initiative

In his visit, part of a West European tour taking in The Netherlands and West Germany, Peres is attempting to seize the diplomatic initiative after several years in which Israel appeared to be on the defensive in the international arena.

His warning this morning, that "time is running out" to avoid renewed conflict in the Middle East, is a theme heard far more often over the years from King Hussein than from Israeli leaders.

Some British diplomats interpret it as a partial reference to Israel's domestic political setup. They say Peres might be hinting that the peace process could become more difficult when he hands over leadership of the unity coalition Cabinet next October to Yitzhak Shamir, leader of the rightwing Likud.

**EFFORT IN SENATE TO AVERT
DEFEAT OF ARMS SALES TO JORDAN**
By Judith Kohn

WASHINGTON, Jan. 22 (JTA) -- Senate Majority leader Robert Dole (R. Kan.) is seeking to head off defeat of a proposed arms sale to Jordan by extending the deadline that Congress gave itself last fall for rejecting the Jordan package, according to a staff member at Dole's office.

The extension would be the second attempt since October to avert what is expected to be a humiliating defeat for the President should a bill disapproving the proposed \$1.9 billion arms package go to the floor of the House and Senate next month.

In the face of overwhelming opposition to the sale in both Houses of Congress, senior Republican leaders worked out a resolution during the last session of Congress barring the President from selling Jordan the arms before March 1, unless "direct and meaningful peace negotiations between Israel and Jordan are underway." If no resolution opposing the sale is passed by that time, the Administration can grant Jordan the requested arms.

Last month, while Congress was still on winter recess, Sen. Richard Lugar (R. Ind.), chairman of the Foreign Relations Committee, warned that the "faltering" Middle East peace process would probably lead to the introduction of a disapproval resolution early on in the new session of Congress that began this week.

Arms Sale Expected To Be Rejected

A staff member at Lugar's office told the Jewish Telegraphic Agency earlier this week that he expected the arms sale to be rejected sometime next month and speculated that a Presidential veto would be easily overridden.

The staff member said today that Lugar and Dole were "scouting around to see if there is any mood at

all" to extend the deadline. The two Senators have been exploring the possibility of an extension since early this month, according to Dole's aide. It was still unclear today whether Dole and Lugar could win sufficient support for a second extension, but it appears unlikely to go through unless some evidence of movement toward peace talks can be demonstrated.

Assistant Secretary of State Richard Murphy was sent to Europe last week for separate meetings with King Hussein of Jordan and Israeli Premier Shimon Peres, in an effort to win agreement on conditions for some kind of international conference that would serve as a backdrop for direct negotiations between Israel and Jordan. Peres is conducting a European tour in which he is seeking support for his efforts to boost the peace process.

The Murphy visit has been interpreted in large part as a last-ditch effort to avert rejection by Congress of the Jordan arms package, which includes F-16 or F-20 jet fighters and surface-to-air missiles.

But an aide at the office of Sen. Rudy Boschwitz (R. Minn.), a member of the Foreign Relations Committee, said today he doubted that sufficient support could be rallied for an extension of the March 1 deadline. The aide said he is aware that Dole was seeking the extension, but that his proposal was not a "live option at this point."

"I also understand that there is not an awful lot of appetite on anybody's part to just have another delay," the aide said.

ISRAELI OFFICIAL URGES THAT CONGRESS NOT REDUCE AID TO ISRAEL

By Kevin Freeman

NEW YORK, Jan. 22 (JTA) -- A senior member of an Israeli Knesset committee last night urged that Congress not cut back on proposed foreign assistance programs to Israel.

Speaking in the context of what he said were also American interests in the Middle East, Ehud Olmert asserted that he hoped Israel will "continue to receive the same assistance and support from the United States" as proposed for the 1986 fiscal year.

Olmert of Herut and the senior ranking member of the Knesset Foreign Relations and Security Committee, addressed some 100 Jewish leaders at a forum sponsored by the Jewish Community Relations Council of New York.

Also speaking at the forum on U.S.-Israel relations were Reps. David Obey (D. Wis.), chairman of the Foreign Operations Subcommittee of the House Appropriations Committee, and Robert Mrazek (D. NY), a subcommittee member.

The forum took place while reports circulated in Washington regarding proposed cuts in Israel's assistance by the 99th Congress, which returned yesterday after a recess. The prospect is that Israel's assistance programs may be cut by as much as 4.3 percent to conform to the proposals of the Gramm-Rudman-Hollings budget cuts. (See separate story.)

Mrazek said that he was informed last night through State Department officials of Israel's tentative decision to return \$51 million of its \$1.2 billion in U.S. economic aid for fiscal 1986, "as demonstration of its recognition of economic cuts in the U.S."

Israel received its \$1.2 billion in fiscal 1986 economic aid at the beginning of the fiscal year under a practice that enables it to benefit from the inter-

est. That left the Administration \$51 million short of meeting the requirements of the Gramm-Rudman-Hollings act passed after the money was distributed.

Obey, meanwhile, in an intensely partisan address, lambasted the Gramm-Rudman-Hollings proposals as too broad, and pointed out that while cuts will have to be made in proposed foreign assistance and social spending programs, the U.S. military budget remained exempt.

He urged that those concerned with increased aid for Israel and other economic issues will have to lobby Congress and the White House for tax increases to bring added revenues to government.

According to Obey, if "you want to see us provide a decent level of support for Israel," there is a need for lobbying for overall programs, and a political compromise on the proposed cuts. He added that he doubted Israel will be exempt from the budget cuts.

Cites Grave Challenges Facing Israel

Olmert, in his remarks, said Israel is facing two grave challenges at the moment. The first is the continuing war against terrorism, and the second is that posed by the Syrian military buildup to the north.

Regarding terrorism, Olmert warned that it "cannot be the exclusive responsibility of Israel" to battle terrorism. He called on the U.S. to join with Israel to confront terrorism.

He also strongly suggested that Libya, accused by Israel and the U.S. of supporting the terrorist group allegedly responsible for the attacks at the airport counters in Rome and Vienna last month, "will not be able to escape the punishment it deserves." He did not elaborate, but said Israel "will act against Libya."

As for Syria, the Israeli official said there "can be no doubt of the intentions of Syria and the target of its military preparations." He warned that the war on terrorism and Syrian activities in the region were more than immediate threats to Israel.

"These... are threatening the interests that are important to other countries, particularly the United States," Olmert said. In this context, he said cut-backs in Israel's military assistance programs, in view of the Syrian military buildup, would have a direct effect on U.S. interests in the region.

U.S. WELCOMES ISRAEL'S GIVE-BACK

By Judith Kohn

WASHINGTON, Jan. 22 (JTA) -- The State Department confirmed today -- and welcomed -- Israel's agreement to return \$51 million of the \$1.2 billion it received from the U.S. in economic aid last fall to help the Reagan Administration meet the budget-cutting requirements of the recently enacted Gramm-Rudman law.

State Department spokesman Bernard Kalb, indicating the U.S. was appreciative of the Israeli move, said the two countries are working on an agreement as to how the money will be repaid. The \$1.2 billion, a grant approved by Congress, was delivered to Israel in a lump sum at the start of the 1986 fiscal year last October 1. Israel also faces a reduction in the \$1.8 billion military aid grant for fiscal 1986, the bulk of which has not yet been delivered.

Kalb said he did not know "what started what" in Israel's decision to return the amount that the Gramm-Rudman legislation requires be deducted from U.S. aid to recipient countries. When the automatic cuts go into effect on March 1, every country receiving aid from the U.S. will have 4.3 percent of the amount

approved for it by Congress deducted from its aid package. Unlike Israel, other recipients get their economic aid funds at intervals during the fiscal year.

Dan Halperin, Economic Affairs Minister at the Israel Embassy here, told the Jewish Telegraphic Agency that Israel was told by the U.S. government that there was a "problem" resulting from the Gramm-Rudman law. He said the message was understood to be a "hint" and that Israel decided voluntarily to return the money.

Halperin added, however, that the U.S. and Israel were in agreement that Israel was under no legal obligation to return money already awarded it. Halperin also said that a reduction of the \$1.8 billion approved by Congress in military aid would be, in a sense, "a breach of an understanding or an agreement" but that Israel would not protest the cut should it go into effect. "I don't think we can contest it on legal grounds," he said.

The State Department has said that all recipients of U.S. military aid, including Israel, would be affected by the automatic cuts in March.

With respect to the \$51 million from the economic aid package, Halperin said U.S. Embassy officials in Israel were negotiating how the money would be returned. It might be deducted from other funds awarded to Israel but not yet delivered or Israel "might simply send a check," he said.

EGYPT DEMANDS ISRAELI WITHDRAWAL FROM EAST JERUSALEM AND THE RIGHT OF SELF-DETERMINATION FOR THE PALESTINIANS IN THE WEST BANK
By Yitzhak Rabi

UNITED NATIONS, Jan. 22 (JTA) — Egypt told the Security Council today that Israel "must" withdraw from East Jerusalem and that the Palestinians in the West Bank, including those living in East Jerusalem, must have their right to self-determination.

The Egyptian Ambassador, Mohamed Ibrahim Shaker, addressed the Council in the course of the debate on "The Situation in the Occupied Arab Territories." The Council opened its debate yesterday at the request of Morocco, as chairman of the Organization of the Islamic Conference, and the United Arab Emirates, as chairman of the Arab Group at the UN. The request was triggered by recent confrontations on the Temple Mount between a group of visiting Knesset members and an angry Arab crowd.

Egypt claimed in the Council today that the incidents were not the first time that Israel "violated the sacred character of the Al-Aksa Mosque." This time, Egypt charged, "Israeli officials" were involved in the "profanation" of the Mosque. The Egyptian representatives warned that "the incitement of religious feelings" can harm the prospects of peace in the region.

Binyamin Netanyahu, Israel's Ambassador to the UN, speaking at the opening session of the debate yesterday, said that a delegation of Knesset members visited the Temple Mount on January 8 and that the visit was coordinated in advance with the Waqf, the Moslem religious authority in charge of administering Moslem holy places in Jerusalem.

He charged that a pre-arranged incitement took place when the Knesset members paused at Solomon's

Stables "which had no religious significance." Netanyahu said that a group of Arabs surrounded the Knesset members and began to shout: "The Jews are invading the Temple Mount. Slaughter the Jews."

Asserting that the PLO was "the main agitator for this (the Security Council) meeting," the Israeli envoy said that the alleged anti-Moslem incident in Jerusalem never happened. "What happened was an attempt to incite anti-Jewish hatred." He said that freedom of religion flourished in Jerusalem and that Jerusalem will remain Israel's capital forever.

The Security Council decided to continue the debate next Monday. Diplomats said they hoped the Council will conclude its meeting next week although at present there is no draft resolution. Diplomats said they expect a U.S. veto on any harsh anti-Israeli resolution.

SHARON REACHES OUT-OF-COURT SETTLEMENT WITH TIME MAGAZINE
By Hugh Orgel

TEL AVIV, Jan. 22 (JTA) — Ariel Sharon, the controversial former Defense Minister, has reached an out-of-court settlement in his libel suit against Time magazine, in a Tel Aviv district court. The amount of the settlement was not disclosed but according to Israel Radio it is a very considerable sum, far in excess of the legal expenses incurred by the Likud Minister.

Sharon, who is Minister of Commerce and Industry in the Labor-Likud unity coalition government, said in a radio interview that he was satisfied with the outcome of his three-year legal battle with Time. He said he regarded the settlement "as a victory for truth and freedom of expression for the press."

Sharon sued the American weekly for libel in connection with an article published on February 21, 1983. Time alleged that as Israeli Defense Minister during the Lebanon War, Sharon had privately urged the family of assassinated Lebanese President-elect Bashir Gemayel to take revenge, leading to the massacre of Palestinian civilians in the Shatila and Sabra refugee camps in Israel-occupied west Beirut in September, 1982, by a Christian Phalangist militia.

The article also claimed that a secret addendum—known as Appendix B—to the report of the Kahan Commission, which investigated the massacre, held Sharon directly responsible. The Kahan Commission, in its published report, held Sharon to have been indirectly responsible and urged then-Premier Menachem Begin to dismiss him. Sharon subsequently resigned as Defense Minister.

He filed a \$50 million libel suit against Time in the U.S. A Federal Court jury in New York decided that the Time article had been defamatory and untrue. But the judge dismissed Sharon's charge of libel and he did not collect damages from Time. Under American law, libel can be established only if there is proof of malice on the part of the media. Time nevertheless apologized for its article.

Although vindicated in the American court, Sharon pursued his libel case in Israel, demanding damages equivalent to \$250,000. The proceedings were expedited when Sharon's attorney, Dov Weissblat, and Time's attorney, Shmuel Barzel, agreed that the findings of the New York jury could be admitted as evidence in the case. This obviated the need to repeat the entire case from scratch. There is no malice clause in Israeli libel law.

BACKGROUND REPORT

U.S. JEWRY HAS A ROLE IN HELPING TO ASSURE THE STRENGTHENING OF SPANISH-ISRAELI DIPLOMATIC RELATIONS

By Marc Tanenbaum

NEW YORK, Jan. 22 (JTA) — On Monday, January 13, my Spanish-speaking colleague, Jacobo Kovadloff and I sat in the office of Ambassador Manuel Sassot, Consul General of Spain, discussing the status of the much-reported plan of the Spanish government to establish diplomatic relations with Israel.

While the conversation was warm and friendly, we told the Ambassador that many in the American Jewish community were becoming frustrated over the repeated promises to Jewish leaders by Spanish officials that diplomatic ties would soon be established, but that for more than a year nothing has happened.

Ambassador Sassot, who formerly directed the Middle East desk of the Spanish Foreign Ministry, sat back in his chair, and declared firmly, "I can tell you now that the decision has been taken. I have just spoken with our Foreign Ministry in Madrid and it will happen within the next weeks."

Last week, Spain and Israel exchanged diplomatic formalities in The Netherlands when Prime Minister Felipe Gonzalez and Premier Shim'on Peres, who are personal friends, met in The Hague. That development rightly deserves to be characterized as "historic." But there ought not to be any euphoria, for a rocky road lies ahead with the Arab world. The rockier that road becomes the more important will be the role of American Jewry in helping sustain Spain's rightful decision.

Intense Arab Pressure On Spain

Spain has been subjected to intense pressures from the Arab League and its member-states threatening reprisals were Spanish-Israeli diplomatic accords realized. The ugliness of that pressure is reflected in a Spanish-language publication issued at the Saudi Embassy in Madrid which declared, "Do you want to establish relations with a racist, fascist and terrorist state?"

But more serious than the propaganda warfare carried out against Spain by Arab nations is the brute fact that the Arab world has become one of the largest buyers of Spanish-made weapons. In the first three quarters of 1983, Spain exported \$2.5 billion in goods to the Arab world while total imports came to \$5.2 billion, mostly in oil.

Saudi Arabia currently buys \$150 million in Spanish arms annually and Madrid is seeking to increase that to \$250 million by the end of next year. Kuwait, Saudi Arabia, and Libya are the major Arab investors in Spain, with large holdings in real estate, housing, and tourist-related industries. Spanish exports to Arab countries include steel, trucks, heavy machinery, chemicals, and increasingly, military hardware.

In contrast, trade between Spain and Israel is relatively insignificant. Indeed, they are competitors in the world market for the sale of oranges and other fruits and vegetables. However, technical and cultural ties have been steadily increasing. Israeli water experts have been called into Spain's southernmost region to help solve the crippling drought problem there. Last year, Iberia and El Al signed an agreement launching direct flights between the two countries.

While Felipe Gonzalez is known to be a genuine friend of Israel's, it is realistic to expect that Arab pressures, especially economic leverage, will force him continuously to make gestures to the Arab world. Thus, in a letter he wrote to the Arab League on April 25, 1985, he assured the Arab governments that not only will Spain's gesture not entail support of Israel's policy, but that it may, in fact, benefit Arab interests.

But American Jews have an important role to play in helping counterbalance these inevitable Arab pressures against Spain in the months ahead. Spain has gone through a decade of industrial crisis as a result of the 1973 OPEC-induced oil crisis. The official unemployment rate is around 2.9 million, or almost 22 percent of the available work force, the highest rate in Western Europe.

While Gonzalez's government has made significant strides in lowering inflation and the trade deficit, Spain is in urgent need of major investments in industry and technology, as well as in increased trade and commerce.

Mutual U.S. Jewish And Spanish Interests

As is the case with West and East European governments which have sought American understanding and support, Spain very much needs the sympathetic interest of American Jews in helping to promote increased commercial ties between the United States and Spain. Spanish Embassy officials have freely volunteered that American tourism to Spain is one of the largest producers of much-needed foreign currency, and they are aware that American Jews are among the largest groups of tourists to Spain.

Beyond the natural interest of American Jews in wanting to assure the strengthening of Spanish-Israeli diplomatic and other human contacts, Jews have a profound interest as Americans in helping sustain the democratic institutions and values that have emerged out of the darkness of Franco Spain just some 12 years ago. Those democratic commitments, as well as Spain's recent firm opposition to terrorism, deserve to place Spain high on the foreign policy agenda of American Jewry.

PAYLESS FURLONGS FOR SHIPYARD WORKERS SPARK MASS DEMONSTRATION
By Hugh Orgel

TEL AVIV, Jan. 22 (JTA) — Hundreds of employees of the government-owned Haifa Shipyards demonstrated today to protest the payless furloughs of indefinite duration enforced by a Jerusalem district court order yesterday.

The order was obtained by Amiram Blum, the government-appointed temporary receiver whose task is to try to rehabilitate the money-losing shipbuilding and repair facility on Haifa Bay. He said last night that only 10 workers will be kept on at full pay for essential maintenance work. The employees, joined by their families, threatened to barricade themselves inside the shipyard.

Haifa Shipyards has lost millions of dollars in the last two years. According to Blum, when he was named receiver a week ago, its losses were flowing at a rate of \$600,000 a month. The Shipyards, a civilian enterprise, has built missile boats for the Navy as well as ocean-going merchant vessels and harbor craft. But slashes in the defense budget have reduced naval construction, and merchant shipping is in a world-wide slump. According to Blum, the Haifa Shipyards can be salvaged, though he would not say how long it might take.