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ISRAEL AIR FORCE ATTACKS SHIITE BASES

By Hugh Orgel

TEL AVIV, Jan. 4 (JTA) -- Israel Air Force helicopters attacked bases of the pro-Iranian Shiite extremist group Hezbollah in south Lebanon at noon Sunday and returned safely to their bases, a military spokesman announced.

He said the targets were buildings in Khirbet Salud and Khabricha villages, just north of the south Lebanon security zone, used as staging areas for attacks on the Israel-backed South Lebanon Army (SLA).

Six SLA soldiers were killed in a Hezbollah attack on their positions in Barashit village last week. Since last May, the SLA suffered 95 fatalities.

Reports from Lebanon said four Israeli attack helicopters conducted the raid. They encountered no ground fire. The three-story buildings hit were in a populated area. Residents sought shelter in nearby mosques, the reports said.

A Cardinal Formula:**O'CONNOR MEETS WITH HERZOG AT THE PRESIDENTIAL RESIDENCE AND IS TO MEET WITH PERES AT HIS RESIDENCE**

By Gil Sedan and Hugh Orgel

JERUSALEM, Jan. 4 (JTA) -- John Cardinal O'Connor, the Archbishop of New York, had a "fascinating" one-hour visit with President Chaim Herzog at the Presidential residence here Sunday evening. He stressed to reporters afterwards that it was "private, unofficial ... and within the guidelines set down by the Vatican." He said he did more listening than talking.

O'Connor's visit to Israel has been fraught with embarrassment and controversy ever since the prelate arrived Thursday morning because of his refusal to meet with Israeli leaders in their Jerusalem offices. He was acting on orders of the Vatican which does not recognize Jerusalem as Israel's capital.

He is scheduled to meet with Vice Premier and Foreign Minister Shimon Peres at the latter's residence Monday morning before leaving Israel for Rome.

Herzog received the Cardinal in his study where he often receives official visitors. The Presidential residence, Beit Hanassi, also serves as Herzog's office. O'Connor, to emphasize the unofficial nature of his call, wore plain clerical garb without the crimson robes and decorations of a Cardinal he has displayed elsewhere during his stay in Israel. He was not accompanied by any member of the Apostolic Delegation staff, the low level diplomatic representation the Vatican maintains in Israel.

An Informal Visit

When reporters pointed out that the Presidential Standard and Israeli flag flew over the residence, O'Connor seemed nonplussed. "I have not changed my mind about paying an official visit. I said right from the beginning that I could not pay an official visit on any senior official of the government in their offices," he said.

"I was invited this morning to pay an unofficial, informal visit on the President in his home, which is what I said I would be willing to do if so invited," O'Connor added.

Pressed by reporters to distinguish between a home and an office considering that Herzog conducts his official business from his residence, O'Connor replied:

"My understanding is that this is the President's residence. If it is not the President's residence, then there has been a gross mistake, because it was very clear, and I say this very seriously, it was very clear that it would not be appropriate for me, within my guidelines, to visit the President officially in his office, in Jerusalem."

Peres does not use his residence as his office. O'Connor will simply be returning the visit Peres made to the Cardinal's residence at New York Diocese headquarters next to St. Patrick's Cathedral last October when Peres invited O'Connor to visit Israel.

Weizman Cuts The Gordian Knot

The venue of both meetings was reportedly suggested to the prelate by Minister-Without-Portfolio Ezer Weizman when they met Saturday night at a reception in the U.S. Embassy in Tel Aviv, given by Ambassador Thomas Pickering. There have been no arrangements for O'Connor to meet with Premier Yitzhak Shamir, a spokesman for the Prime Minister's Office said Sunday.

The Cardinal has repeatedly apologized for any offense he might have given Israelis and their leaders by refusing, on instructions from the Vatican, to meet the latter at their offices. He faulted himself for not being fully aware of the political ramifications when he first arranged the meetings.

A Routine Visit

Otherwise, the visit by the New York Roman Catholic leader has been routine. On Friday he visited the Yad Vashem Holocaust Memorial where, near tears, he found it difficult to express in words the horror he felt at viewing the Holocaust exhibits. He also visited the Western Wall where he kissed the stones.

On Friday morning he called on the parents of Zecharia Baumel, an Israeli soldier missing in Lebanon since 1982. The Cardinal prayed with the family for his welfare.

O'Connor toured Moslem shrines on the Temple Mount where he was received by the Mufti of Jerusalem, Saad E-Din Al Alami. The latter accused Israel of intentions to destroy the shrines. O'Connor made no comment.

ISRAEL DENIES IMPOSING NAVAL BLOCKADE ON A LEBANESE PORT

By Hugh Orgel

TEL AVIV, Jan. 4 (JTA) -- Israel denied Sunday that it has imposed a naval blockade on the Lebanese port of Junieh, north of Beirut, but acknowledged that its Navy intercepted a Cypriot car ferry bound there from Larnaca Friday, in international waters, because Palestinian terrorists were believed aboard.

A report from Nicosia said the Cypriot government accused Israel of halting two car ferries Friday and has lodged a strong protest with the Israeli authorities.

Junieh, in the Christian-held area of Lebanon, is used by Lebanese Christians and others who travel abroad to avoid Beirut airport in Moslem-held West Beirut. The ferries run a daily 14-hour shuttle to Larnaca.

The 8,187-ton ferry Empress was intercepted on the high seas Friday enroute to Junieh. Its captain was ordered by a loud hailer to hand over any Palestinian terrorists and their weapons reportedly aboard. The captain refused and was ordered by the Israel Navy to return to Larnaca.

The 3,000-ton ferry Sunny Boat was also intercepted and turned back, according to Cypriot authorities who denied either vessel carried terrorists or weapons. Foreign Minister Shimon Peres said the Navy acted in a "routine" manner to prevent Palestinian terrorists from returning to Lebanon. He said such operations were carried out when there was reason to believe terrorists were trying to use the sea route to re-infiltrate Lebanon.

Cyprus reported Sunday that the ferries had resumed service. The Empress carried 600 passengers to Junieh and the Sunny Boat carried 250 without incident.

On June 29, 1984, Israel Navy gunboats intercepted the Cypriot-owned Panamanian-flag car ferry Alisur Blanco on the high seas and forced it to Haifa where Israeli authorities removed nine of its 63 passengers for questioning. The vessel was released later the same day.

PUBLIC RECOGNITION URGED FOR THREE FORMER SHIN BET OPERATIVES
By Hugh Orgel

TEL AVIV, Jan. 4 (JTA) -- A key Justice Ministry official has urged that the three former Shin Bet operatives who exposed the scandal in Israel's secret service be re-instated or at least be given public recognition and thanks for bringing the affair to light.

The three, Reuven Hazak, Peleg Rabai and Rafi Malka, were fired by former Shin Bet chief Avraham Shalom whom they charged was responsible for the killing of two captured Palestinian bus hijackers in 1984 by Israeli agents, after they were turned over by the army for questioning, and later covered it up.

Deputy Attorney General Yehudit Karp, a member of the Justice Ministry's legal team which drew up the Attorney General's report on the affair, sent a letter to Attorney General Yosef Harish Thursday urging fair play for the men.

She noted that Shalom's version of events, initially believed, was subsequently discredited and he was forced to resign last fall but is immune to prosecution because of a Presidential pardon.

Karp referred in her letter to the "civic courage" of the three ousted agents who were accused of "dishonorable motives" in blowing the whistle on Shalom. The Attorney General, by virtue of his position, should "support people who have the courage to do what they did to expose wrong doing," Karp wrote.

DOCTOR IS ANGRY OVER GOVERNMENT DELAYS IN SETTING UP LIVER TRANSPLANT UNIT AT RAMBAM HOSPITAL IN HAIFA
By Hugh Orgel

TEL AVIV, Jan. 4 (JTA) -- An American doctor who has raised money to establish a liver transplant unit at Rambam Hospital in Haifa, expressed anger here Sunday over government red-tape and delays in setting it up and warned that funds might not be forthcoming if the delays persisted.

Dr. Zalman Shapira of Pittsburgh, who heads a committee that raised \$500,000 in cash and has pledged for an additional \$1.4 million, also said on an Israel television interview that he would advise the surgeon slated to head the liver transplant unit, Dr. Yigal Kamm, to seek a position abroad.

Kamm, who was trained in liver transplant procedures at Children's Hospital in Pittsburgh, was described by Shapira as one of the world's top 10 liver surgeons. He has received many attractive offers for work abroad and "If I were him, I would be getting very impatient and would consider taking up one of those offers," Shapira said. Kamm was not available for comment.

Kamm performed the first liver transplant operations in Israel last October. The first recipient, Mira Schichmanter, 40, died on November 8 from complications. The second recipient, Eliahu Schreier, 59, died on November 13. No further transplant surgery has been performed since then.

Shapira said his committee planned to bring American donors to Israel for the dedication of the unit at Rambam next April 22. He said he had discussed the matter of delays with Health Minister Shoshana Arbeli-Almoslino who also expressed impatience with official foot-dragging. Shapira said she was concerned that once American aid

PENTAGON OFFICIAL TO TRY TO PERSUADE ISRAELI LEADERS TO ABANDON THE LAVI FOR A LESS COSTLY AMERICAN AIRCRAFT
By Hugh Orgel

TEL AVIV, Jan. 4 (JTA) -- A top Pentagon official arrived here Sunday night for a round of talks with Israeli leaders to persuade them to abandon the Lavi, Israel's second generation jet fighter plane, for a less costly American aircraft.

Dov Zackheim, Deputy Undersecretary of Defense for Policy and Resources, is expected to propose the F-15, F-16 or the Harrier vertical take-off plane. A prototype of the Lavi was airborne for the first time last Wednesday and its first test flight was pronounced a resounding success.

But the Pentagon, and Zackheim in particular, argue that the U.S.-financed Lavi simply costs too much to produce. Israeli officials have disputed the Pentagon's figures which they say are based on American costs.

Should Israel agree to a foreign model, Israel would produce most of the components. But officials here see difficulties with the F-16 because four European countries -- Holland, Belgium, Denmark and Norway -- participated in its development and produce its parts. They may object to Israel participating in the manufacture of the parts, Defense Ministry sources said.

Zackheim is scheduled to meet with Defense Minister Yitzhak Rabin Monday and later in the week with Premier Yitzhak Shamir, Vice Premier and Foreign Minister Shimon Peres, and Finance Minister Moshe Nissim. Israel's reply to Zackheim's proposals are expected before the American official leaves at the end of the week.

terminated, the Health Ministry would be called on to allocate large sums to continue the liver transplant program.

SHAMIR ACCEPTS PERETZ'S RESIGNATION By Gil Sedan

JERUSALEM, Jan. 4 (JTA) -- Interior Minister Yitzhak Peretz formally submitted his resignation to Premier Yitzhak Shamir at Sunday's Cabinet meeting and it was accepted with regret. It takes effect in 48 hours.

Peretz, who heads the ultra-Orthodox Shas Party, quit rather than comply with a Supreme Court order to register as a Jew Shoshana Miller, a recent immigrant from the U.S. who was converted to Judaism by an American Reform rabbi. His departure from the Cabinet is not expected to lead to the defection of Shas, which has four Knesset seats, from the unity coalition government.

No Replacement For Peretz Announced

No replacement for Peretz has been announced. The Interior Ministry is traditionally headed by a member of an Orthodox political party. The Orthodox rabbinate refuses to recognize conversions performed abroad by non-Orthodox rabbis. Only Orthodox rabbis are permitted to perform conversions in Israel.

Miller was converted four years ago by Rabbi David Klein, a Reform rabbi of Colorado Springs, Colo. She immigrated to Israel a year ago and appealed to the Supreme Court after the Interior Ministry refused to register her as a Jew, thus denying her automatic citizenship.

The Supreme Court ruling last month precipitated a crisis in Orthodox circles. Miller must be given status as a Jew which, in effect, recognizes Reform conversion as valid in Israel.

Miller Regrets The Controversy

Miller herself is presently in the U.S. caring for her widowed father who is seriously ill. She said on an Israel Radio telephone interview Sunday that she plans to return to Israel as soon as she can. She expressed regret over the controversy aroused by her case.

"I am not a political animal. When I converted to Judaism I believed I was making an entirely personal commitment. I suddenly found myself in the center of a public controversy," she said.

Commenting on Peretz's resignation, Miller observed that it "was proof that all the streams of Judaism have to be treated equally."

Miller indicated that she could have ended the controversy by agreeing to Rabbi Klein's suggestion that she submit to Orthodox conversion rites in Israel. She said her conversion experience was a "momentous event in my life and I see no reason to do it again."

FATHER AND 3 CHILDREN DIE IN A BLAZE By Hugh Orgel

TEL AVIV, Jan. 4 (JTA) -- Four people -- a father and his three children -- died in a blaze in an 11-story building in Givatayim near Tel Aviv on Saturday morning. The mother is in a hospital, in serious condition.

Fire fighters and police say the blaze apparently started from a short-circuit due to dripping water in the fuse box cupboard on the fourth or fifth floors.

Yitzhak Aroesti, 41, and his three children, Itai, 8, Idit, 6, and Yair, 4, were trapped in their fifth-floor apartment and apparently died of smoke inhalation. Their mother, Dafna, 40, was Sunday reported to be in serious condition. Sixteen other residents were rushed to the hospital, most of them with light injuries.

The blaze, reported at about 5 a.m., quickly spread up the elevator shaft and the stairwell, sending dense smoke throughout the structure to the upper stories.

The Aroesti family had been preparing to move to a new apartment next week.

SPECIAL TO THE JTA AN HISTORIC ACT OF REDEMPTION By Milton Jacoby

MADRID, Jan. 4 (JTA) -- An historic act of redemption will take place in 1992 in Spain when the Jewish people will symbolically return to the land from which they had been banished 500 years earlier by its sovereign rulers, the despots King Ferdinand and Queen Isabella. Their decree of expulsion was issued on March 31, 1492, and the Jews of Spain were given just three months to leave their homeland.

Although it may seem a long way off, historians and Jewish leaders in Madrid, Barcelona and Cordoba are beginning discussions on an agenda for the nationwide observances in 1992, half a millennium later, of that year of infamy in Jewish history. It is expected that delegations from Israel and the diaspora will convene in Spain five years from now at the invitation of the national Jewish community and the government.

There already have been approaches to the World Jewish Congress and other bodies, but as yet there is no authoritative group within the country to plan and coordinate the historic event. It was learned from a number of historians and Jewish officials interviewed recently by this reporter that the government may be asked to appoint a commission of prominent Jews and non-Jews early in 1987.

The aim of the body would be to devise a program of observances to take place during the week of March 31, 1992, in former great centers of Jewish life: Toledo, Cordoba, Barcelona, Girona, Zaragoza, and others.

A corollary objective would be the invitation and coordination of Jewish groups and delegations from Israel and nations around the globe, to convene in Spain at the end of March 1992. It is assumed that heads of state and other world Jewish leaders will be on hand to participate in what is viewed by many Spanish Jews as an act of "justice and absolution."

Some even expect that there may also take place a symbolic annulment of the expulsion decree. It is heartening to note that Jews have not waited for such an official act, and have indeed "returned" over the past century, to the land of their ancient glory.

The year 1992 will indeed be a turbulent one for Spaniards, with two other major events making it a hot ticket. Barcelona will be hosting the Olympics. And Seville, the Pearl of Andalusia, will stage mammoth celebrations commemorating Christopher Columbus and his three-ship fleet gliding down the Guadalquivir, the river that bisects the city, and out to sea in search of a new world. That legendary voyage began just a few weeks prior to the forced exile of the Jews of that city and every other in Spain.

**BEHIND THE HEADLINES
ISRAEL'S ECONOMIC OUTLOOK FOR 1987**

By Elmer Winter
Chairman, Committee for Economic Growth of Israel

NEW YORK, Jan. 4 (JTA) -- What is Israel's economic outlook for 1987?

Barring unforeseen events, some encouraging growth can be expected during the year ahead, although problems will remain. Much will depend on the success of gaining approval of the Finance Ministry's new economic plan, which has been under heavy fire from labor, the business community and Cabinet Ministers ranging from Defense Minister Yitzhak Rabin (Labor) to Housing Minister David Levy (Likud-Herut).

The plan was formulated by Finance Minister Moshe Nissim and Michael Bruno, the Governor of the Bank of Israel. The embattled plan is undergoing scrutiny by two ad hoc ministerial committees.

The extent of the opposition to the plan, which requires continued sacrifices from trade unions, manufacturers and government ministries, underscores one fundamental fact: despite Israel's spectacular progress in beating back inflation and its success in maintaining the value of the Shekel in the international currency market, the people of Israel must tighten their belts still further if the nation is to make further progress on the road to economic independence.

The gains made in the past year offer solid reason to voice confidence in Israel's economic future. Inflation plunged from 285 percent in 1985 to 18 percent in 1986. Exports rose, the government budget was cut and unemployment remained stable at 7 percent -- the same rate as in the United States.

Especially significant: there were few strikes in either the public or private sector last year. At the same time, the nation's foreign currency reserves rose by \$1 billion (to \$4 billion), their highest level since 1983.

From Stability To Growth

In 1987 Israel is likely to move from stability to growth. Here is my forecast:

- * Despite the hardships required, the new economic plan will be adopted, with some revisions, by the government. The proposal would ease foreign currency restrictions and calls for an overhaul of the country's capital market and for tax reductions. There would also be further cuts in government spending, wages would remain at present levels and there would be no devaluation of the currency.

- * The rate of inflation in 1987 will be in the 9 to 12 percent range.

- * Unemployment will remain at about 7 percent.

- * Israel's worldwide exports will rise 7 to 10 percent over the 1986 figure, helped in part by increases in Black Africa -- Cameroon, Ivory Coast, Liberia, Nigeria, Togo and Zaire. These and other African countries are expected to open their markets to Israeli products. New export opportunities may also develop in the People's Republic of China and Japan.

- * Export to the U.S. will keep climbing. In 1985, Israel for the first time exported more goods and services to the U.S. than it imported. While end-of-the-year figures are not yet available, the first half of 1986 showed the balance of trade even more favorable to Israel than in 1985.

- * Foreign investments will expand as a result of the Free Trade Agreement between the U.S. and Israel.

- * Washington will provide some \$3 billion in economic aid to Israel. On the other hand, it is unlikely that Israel will receive the \$1.5 billion in emergency grants that the United States made in 1985 and 1986.

- * Israel will start receiving additional orders from the U.S. for research in the Strategic Defense Initiative ("Star Wars") program. Agreements for the first \$10 million in research by Israel have already been signed by the two governments.

- * More Israeli firms will come to Wall Street for financing. Over the last 18 months, Israeli companies raised about \$200 million here through public stock offerings and the issuance of debentures.

- * Israel's trade balance will get a boost from the fact that prices on imports from Europe will drop in 1987 in accordance with regulations of the European Economic Community, of which Israel is an associate member. The same will apply to imports from the U.S. under the terms of the Free Trade Agreement. These savings will be passed on to Israeli consumers by the government, rather than increase the purchase tax on foreign goods.

- * Jerusalem will mount a major drive to persuade American Jewish organizations to bring their members to Israel to celebrate the 40th anniversary of the Jewish State and the 20th anniversary of the unification of Jerusalem. This drive is expected to increase U.S. tourism to Israel -- a major source of revenue that fell drastically in 1986 -- as early as next month.

- * More American consumers will be buying Israeli-made products in a widening network of retail outlets throughout the U.S.

- * Israel will benefit significantly from the recent approval by President Reagan of a plan to reduce the interest rate Israel pays on outstanding military loans from the U.S. (Egypt is another beneficiary of this plan.) Over the next four years, Israel will save more than \$1 billion in interest on outstanding loans from the U.S. of some \$5.5 billion.

A Down Side Item

About the only item on the down side is that Israel's program to sell government-owned companies to private entrepreneurs is likely to make only minimal progress in 1987. That's unfortunate, because economists are unanimous in urging that the government rid itself of the burden of operating so many industrial and other enterprises that would be far better off in private hands.

All in all, however, 1987 should be a good year for Israel's economy. This outlook could of course be adversely affected by political upheaval in Israel, military attack against the country or harmful new findings in the Iran-Contra affair. Otherwise, Israel's economy can be expected to grow moderately stronger in the year ahead.

NEW YORK (JTA) -- The National Conference on Soviet Jewry will release its 1986 Year End Report on the status of Soviet Jewry at a press briefing on Thursday. The briefing will be held in the News Room (13th Floor) of the National Press Club (14th & F Streets, N.W., Washington, D.C.) at 8:30 a.m.