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HERZOG CALLS ON SHAMIR TO FORM GOVERNMENT THAT WILL UNITE ISRAEL

By David Landau

JERUSALEM, Nov. 14 (JTA) -- President Chaim Herzog formally called on Premier Yitzhak Shamir Monday to form a new government.

At the same time, he made clear to the Likud leader his preference for a broadly based regime that would unite the country and avert the alienation of overseas Jewry.

Shamir seems most likely instead to form a narrow coalition led by Likud, with the support of the ultra-Orthodox and right-wing parties.

He got the nod from Herzog, a full two weeks after Election Day, only after the two largest religious parties, Shas and Agudat Yisrael, decided late Sunday to align with Likud rather than Labor.

Their combined 11 Knesset seats will allow Shamir to form a working majority in the Knesset. The two other religious parties are expected to fall in line.

Herzog, whose office as chief of state is non-political and non-partisan, made his preferences known by stressing to Shamir the mounting public pressure for a unity government.

He noted widespread concern among Israelis and Jews abroad over the future Zionist nature of the state and the fragility of Jewish unity. And he offered a withering criticism of Israel's present election system, which endows minority parties with disproportionate political power.

'Will Try' For Unity Coalition

Shamir was equally careful in crafting his response to the president. He said he would approach "all parties who agree to serve in a Likud-led government" to join him "according to such terms as we all agree to."

The premier said he was "always a devotee of wide government -- what was called four years ago a unity government," a reference to the Likud-Labor partnership established in 1984.

This remains the correct formula today, Shamir said, "and we will try to persuade all the parties involved so that we can set one up this time, too."

A new Labor-Likud coalition, however, seems hardly likely at the moment. Labor Party Secretary-General Uzi Baram is less than enthusiastic over the idea. He acknowledged that certain broad circles in Labor seem amenable, provided Likud approaches them on the basis of parity.

Baram conceded, however, that Labor is in no position to demand a rotation of the office of prime minister, such as occurred in the outgoing unity government.

Labor won three more Knesset seats than Likud in 1984. The reverse occurred in the 1988 elections, with Likud winning 40 to Labor's 39.

Shamir told Herzog he was "aware of the concern and fears, especially among U.S. Jewry" concerning "legislation which is part of the present discussions."

This was a reference to the demands of the ultra-Orthodox parties that the next government guarantee swift passage of an amendment to the Law of Return that would redefine who is considered a Jew in Israel.

The amendment would not grant automatic citizenship to those converted to Judaism by non-Orthodox rabbis. The change is fiercely opposed by Conservative and Reform Jews, who constitute the vast majority of affiliated Jews in the United States and other Diaspora countries.

'Prevent Division And Discord'

Shamir said the outgoing government had sought a solution to this issue "that would prevent division and discord . . . and we will continue to pursue this search."

He called on all sides "to show goodwill" and work together on "solutions that will facilitate the unity of the Jewish people."

But according to all reports, Shamir already has promised the religious parties that the "Who Is a Jew" amendment will be passed within weeks of the new government taking office.

Herzog called Israel's present electoral system an anomaly not attuned to the final years of the 20th century.

He called for "a searching re-examination" of the relevant laws. But he stopped short of urging a change from proportional representation to constituency elections. Nor did he call on Labor and Likud to form a unity government for the sole purpose of enacting electoral reforms.

Herzog did emphasize in his private talk with Shamir, and with a Likud delegation that visited him earlier, the continuing flood of letters and calls to his office from members of the public urging "a profound desire for unity in the face of dangers from without and from within, dangers to Jewish unity and to the Zionist nature of the state."

The president also criticized expressions of anti-Orthodox sentiment and called for tolerance.

Shamir promised to carry out his task as expeditiously as possible. The law gives him 21 days to form a government, and he may ask for another 21 days if necessary. He pledged that the new government would make "an enormous effort to advance peace with our neighbors."

RELIGIOUS PARTIES BACKED LIKUD AFTER SERIES OF DEMANDS WERE MET

By David Landau

JERUSALEM, Nov. 14 (JTA) -- Premier Yitzhak Shamir owes his mandate to form the next government to the Torah sages of the two largest ultra-Orthodox parties and to the Lubavitcher rebbe, 6,000 miles away in Brooklyn.

The Shas party's Council of Torah Sages, Moetset Hahmei HaTorah in Bnei Brak, and the Agudat Yisrael's corresponding panel, Moetset Gedolei HaTorah, instructed their parties' Knesset factions Sunday night to advise President Chaim Herzog they favored a government headed by Shamir.

The president is required by law to assign the task of forming a government to the political leader most likely to accomplish it. Shas and the Agudah represent 11 Knesset seats between them.

Shamir has a good chance of winning the National Religious Party's five seats, in which case Degel HaTorah, the newest Orthodox party, with two seats, is likely to climb aboard. It declined to make any recommendation to the

president itself.

With the 18 religious votes, the seven represented by the secular parties of the right wing and the 40 Likud, won in the Nov. 1 Knesset elections, Shamir will have a governing majority in the 120-member Knesset, if all goes well with the formal negotiations now about to begin.

The Shas and Agudah sages were subject to intense lobbying until the last moment. On Sunday afternoon, Shamir personally visited Ovadia Yosef, the former Sephardic chief rabbi of Israel, who is Shas's spiritual mentor. His aides maintained contacts with Agudah.

'Waited 18 Years For This'

The Knesset members-elect of the two religious parties were evenly divided over aligning with Likud or Labor.

Rabbi Yitzhak Peretz, the Shas faction leader, said Labor had actually "offered more." But the Shas constituency persuaded the sages to go with Shamir, he hinted.

Once the "wise men" had spoken, all elements of the party rallied behind their decision.

Agudah sentiment also was split between Labor and Likud. But intense pressure for Likud emanated from the Lubavitch court in Brooklyn, presided over by the elderly Rabbi Menachem Schneerson.

Likud won Chabad backing apparently through the efforts of party hard-liner Ariel Sharon, who maintained close contacts with Lubavitch activists.

Sharon reportedly delivered a letter signed by Shamir, vowing that the controversial "Who Is a Jew" amendment to the Law of Return would be adopted by the Knesset within six weeks after the new government takes office.

"We have fought 18 years for this. We must seize the opportunity," a Chabad rabbi here observed.

The measure would nullify conversions performed by non-Orthodox rabbis. In effect it would delegitimize the Conservative and Reform movements in Israel.

It is fiercely opposed by the Conservative and Reform movements abroad, which represent the vast majority of affiliated Jews in the United States and other Western countries of the Diaspora.

Another path to the same goal sought by the religious parties would be an amendment to the religious courts law. It would require that any convert from abroad obtain the endorsement of a rabbinical court here in order to marry.

Cabinet Posts Promised

Shamir is reported to have promised Shas passage of that amendment within 12 weeks of the new government taking office. It will be rendered moot, though, if the "Who Is a Jew" amendment is adopted.

In addition to these measures, Likud reportedly has offered Cabinet and sub-Cabinet posts to the ultra-Orthodox parties, thereby giving them enormous power to regulate the everyday lives of Israelis.

Peretz is said to have been promised a deputy premiership and the Interior Ministry, while the Ministry of Housing would go to Arich Gamiel of Shas.

The Absorption and Welfare ministries would be put in control of Agudat Yisrael, which would run them through directors general. The Agudah sages eschew ministerial posts for their party

members.

The National Religious Party, headed by hard-liner Avner Shaki, is slated to get the Education and Religious Affairs ministries.

Shas would get the deputy ministry of education and another deputy ministry not yet identified.

Agudah would be awarded two deputy ministries, including finance and chairmanship of the Knesset's Finance Committee.

But none of these postings is yet nailed down. There is still much discord among the various parties, and Shamir's aides predict long and arduous negotiations ahead.

There also are pressures building within Likud. Sharon is demanding the Defense Ministry, which Shamir is reluctant to give him. Yitzhak Modai insists on the Finance Ministry, which he formerly headed. Shamir would prefer incumbent Moshe Nissim to retain it.

Meanwhile, Housing Minister David Levy, a powerful voice in Likud, has withdrawn himself from negotiations, charging Shamir with "double-dealing" that provoked mistrust.

ISRAELI TROOPS CAPTURE THREE TERRORISTS ON LEBANESE BORDER By Hugh Orgel

TEL AVIV, Nov. 14 (JTA) -- Israeli troops wounded and captured three heavily armed Palestinian terrorists Sunday night, as they were attempting to infiltrate Israel through the southern Lebanese security zone.

The three were identified as members of the Democratic Front for the Liberation of Palestine, a Marxist, pro-Syrian group headed by Nayef Hawatmeh.

The infiltrators were equipped with LAW shoulder-fired missile launchers, Kalachnikov assault rifles, grenades, ammunition and wire-cutters.

According to the Israel Defense Force, documents were found on the terrorists identifying them as "freedom fighters" on their way to support the Palestinian uprising in the West Bank and Gaza Strip and to free comrades held in Israeli prisons.

The gang was spotted by an IDF unit on routine patrol near Talusa in the central sector of the security zone, less than five miles north of Moshav Margaliyot in Upper Galilee.

Military sources said the incident was the 46th attempt in three years by Palestinian terrorists to infiltrate Israel through the security zone. Most of them were foiled, either by the IDF or the Israel-backed South Lebanon Army.

The IDF, meanwhile, was highly critical of the way the United Nations Interim Force in Lebanon handled a hostage situation in the security zone Sunday which resulted in the death of a Lebanese civilian.

A five-man gang of Al Fatah, the mainstream fighting organization of the Palestine Liberation Organization, seized a Finnish-manned UNIFIL post and held hostage the five soldiers and two Lebanese civilian water workers sent there to repair a leaky pipe.

One of the Lebanese hostages was killed. Four of the terrorists surrendered early on, but one, said to have been heavily drugged, held out for 18 hours.

UNIFIL troops surrounded the post but made no attempt to overpower the lone gunman, IDF sources said.

U.S. DEPLORES PARTICIPATION OF TERRORIST AT PNC MEETING

By David Friedman

WASHINGTON, Nov. 14 (JTA) -- The State Department expressed its displeasure Monday that a terrorist convicted of murdering a disabled American Jew during the 1985 hijacking of the Italian cruise ship Achille Lauro was participating in the Palestine National Council's meeting in Algiers.

"We find it extraordinary that a convicted murderer would do that," department spokeswoman Phyllis Oakley said. "He should be brought to justice."

Oakley was referring to Mohammed (Abul) Abbas, who was convicted in absentia of murdering Leon Klinghoffer, a 69-year-old New York Jew confined to a wheelchair. During the hijacking, Klinghoffer was shot and pushed overboard.

Abbas, a member of the Palestine Liberation Organization's executive committee who masterminded the hijacking of the ship on the Mediterranean, was sentenced by an Italian court to life in prison.

Oakley called "repugnant" remarks Abbas made about Klinghoffer on Sunday in an interview with reporters outside the convention hall where the PNC was meeting. "They demonstrate once again the little regard such terrorists have for human life," she said.

According to The New York Times, Abbas told reporters the hijacking was "like driving a car" in which "you have an accident."

Asked about Klinghoffer's murder, he first asked, "Who is Klinghoffer?" But according to the Times, he then said with a half smile, "Maybe he was trying to swim for it."

Policy On PLO Unchanged

As for the PNC meeting, Oakley said she would have no comment about reports that the PNC, the policy-making body of the PLO, plans to accept United Nations Security Council Resolution 242, which implicitly recognizes Israel.

Oakley said there would no comment until the PNC issues its "final definitive statement at the end of the meeting" Tuesday.

However, both President Reagan and President-elect George Bush welcomed the reports, although they cautioned that the PLO would still have to take further steps.

Oakley stressed that "our policy has not changed" on the PLO. Since 1975, the United States has maintained that it will have no dealings with the PLO until it recognizes Israel's right to exist, accepts Resolution 242 and renounces terrorism.

In New York meanwhile, a major American Jewish leader said any PLO acceptance of Resolution 242 would be "meaningless" unless the organization renounces terrorism and states "for all to hear its acceptance of Israel's legitimate right to statehood in the Middle East."

Morris Abram, chairman of the Conference of Presidents of Major American Jewish Organizations, said in a statement that the PLO remains unfit to come to the negotiating table until it stops sending armed bands against Israeli civilian targets and renounces its National Covenant, which calls for the destruction of Israel.

Abram also said the PLO must repudiate the "three Nos" of the Arab League's Khartoum declaration of 1967, which forbids recognition, negotiation and peace with Israel.

ISRAEL DEFENSE FORCE BRACES FOR INDEPENDENCE PROCLAMATION

By Gil Sedan

JERUSALEM, Nov. 14 (JTA) -- The Israel Defense Force tightened its grip on the West Bank and Gaza Strip on Monday, in a determined effort to quash by whatever means necessary any popular reaction to the proclamation of an independent Palestinian state.

Such a declaration is widely expected to emanate from the meeting of the Palestine National Council in Algiers Tuesday. The PNC is the parliamentary body of the Palestine Liberation Organization.

Israeli authorities fear it will trigger an escalation of the Palestinian uprising, now in its 12th month.

On Monday, IDF troops demolished houses the army said belonged to 19 members of two terrorist organizations active in the West Bank and East Jerusalem.

Residents of West Bank towns were forced to wipe anti-Israel graffiti off walls. Palestinian flags were hauled down and leaflets in Arabic were circulated warning the populace to observe law and order.

Influential members of the Palestinian community, including clergymen, were warned against incitement. Loudspeakers used to call the faithful to prayer were removed from the minarets of mosques so they could not be used to call for demonstrations.

But IDF vigilance did not prevent the circulation of leaflets with the words of a Palestinian national anthem, "My Country, My Country."

Nor did it stop Arabs from stocking up with fireworks to celebrate the expected declaration of independence.

The Israelis are fearful that demonstrations in the territories will spread to restive Arab communities in Israel.

A general strike has been called in the Arab town of Taiba, near Kfar Sava Tuesday, to protest the demolition of 15 homes built there without licenses.

The organizers, a committee of Arab mayors and Knesset members, say the strike has nothing to do with the PNC meeting in Algiers.

POLICE UNCOVER FOUR TERRORIST CELLS

By Hugh Orgel

TEL AVIV, Nov. 14 (JTA) -- Jerusalem police reported Monday that four cells affiliated with different terrorist groups have recently been uncovered in the municipal area.

According to a police spokesman, four members of Al Fatah, the terrorist arm of the Palestine Liberation Organization, were apprehended in the Old City.

They are suspected of planting explosives last month at the apartment owned by Minister of Commerce and Industry Ariel Sharon in the Old City's Moslem quarter, and of planning to attack the Kishle police station in the Old City.

Another cell, believed affiliated with the Democratic Front for the Liberation of Palestine, was broken up in Abu Tor. Its members are suspected of firebomb attacks on police vehicles in the Old City last March and again in August.

Terrorist cells uncovered in Abu Tor and Anata were linked to the Islamic Jihad, an organization of Moslem extremists. They are believed to have planned attacks in the Jerusalem area.

**AS JAPAN WARMS TIES WITH ISRAEL,
ITS LEADERS MEET WITH PLO OFFICIAL**
By Willy Stern

TOKYO, Nov. 14 (JTA) -- A senior official of the Palestine Liberation Organization was in Tokyo last week for meetings with Japanese Prime Minister Noboru Takeshita and Foreign Minister Sosuke Uno.

Farouk Kaddoumi, head of the PLO's political department, repeated his call for Japan to help "activate the peace process."

In a 25-minute meeting last week, Takeshita told Kaddoumi that Japan will work through international organizations to help achieve peace in the Middle East.

At a time when the Japanese government has stated its intention of improving bilateral relations with Israel, Japan's cozy relationship with the PLO remains a major irritant.

A senior Japanese Foreign Ministry official recently made clear that even though Japan is warming toward Israel, there has been no change in the privileged status which the PLO has been accorded in Japan.

"The Japanese government does not consider the PLO a terrorist organization," explained Yasuki Ono, deputy director of the First Middle East Division. "We have good relations with the PLO and support what they are trying to do."

Ono's comments may come as a surprise to a working party set up in another branch of the Japanese government that specializes in anti-terrorist tactics. This group was established before the Olympics in Seoul to counter terrorism in Asia.

Concern About Antagonizing Arabs

In fact, a representative of the group recently approached Israeli sources in Tokyo in the hope of sharing anti-terrorism information.

Diplomatic sources in Tokyo suspect that Kaddoumi's visit to Tokyo was quietly engineered by the Japanese government, a charge the Foreign Ministry denies.

Japan in 1981 became the first major non-Communist country to host PLO leader Yasir Arafat. Since then, the Japanese government has catered to the PLO's agenda and bowed to Arab pressure, according to Professor Takeshi Muramatsu of Tsukuba University, a leading Japanese Middle East analyst.

At the time that Arafat was invited to Japan, neither his terrorist connections nor his ties to the Soviet Union were known here. Muramatsu explained that when Arafat's history became apparent, the Japanese government thought it was too late to call off the visit.

A behind-the-scenes decision was made that Arafat would meet then-Prime Minister Zenko Suzuki at the Diet, Japan's parliament, and not at his office, to downgrade the visit.

Kaddoumi, however, met Takeshita this week at the prime minister's official residence, a privilege usually reserved for foreign heads of state or senior government officials.

Japan's reluctance to anger the PLO is not based so much on ideology as on intimidation and concern about offending Arab nations, whom the Japanese rely on for oil.

Japanese foreign ministers make a point of attending the annual Palestine Day celebrations in Tokyo as a gesture of solidarity. But in the last decade, only one Japanese foreign minister has attended American Independence Day celebrations

here, despite Japan's claim that the U.S.-Japan alliance is the most important two-way tie in the free world.

When Foreign Minister Uno became the first Japanese minister ever to visit Israel in June, he made a pledge of \$500,000 in aid for refugees through the U.N. Relief and Works Agency for Palestinian Refugees in the Near East.

Diplomats connected with the Arab community say that a current source of friction between the Japanese and Arab embassies here is that the PLO's office in Tokyo has not been upgraded to embassy status since it was opened in 1977.

This request is not unusual within the Japanese context. Unlike most modern democracies, Japan treats its local PLO representative, for most diplomatic purposes, like the ambassador of a major country.

**FEAR OF SHEKEL DEVALUATION
TOUCHES OFF RUN FOR DOLLARS**
By Gil Sedan

JERUSALEM, Nov. 14 (JTA) -- Fear that the next government will have no choice but to devalue the shekel has touched off a rush on American dollars.

If the shekel is reduced in value, it will take more of them to buy a dollar.

As a result of the devaluation panic, the Bank of Israel, the country's central bank, is being emptied of dollars at a rate of \$20 million a day. The money is being invested in consumer goods.

Since July, Israel's foreign currency reserves have been depleted by about \$2 billion because of devaluation fever. But they remain at a healthy \$4 billion, so financial policy makers are not concerned.

KOOR PLANS THOUSANDS OF LAYOFFS
By Hugh Orgel

TEL AVIV, Nov. 14 (JTA) -- Rescuing the giant Histadrut-owned Koor industrial complex from bankruptcy will cost 6,000 to 7,000 jobs over the next two years, according to news reports here Sunday.

The planned layoffs reportedly are a key element of the economic and financial recovery plan Koor submitted Friday to the Finance Ministry and the Israeli banks that are its largest creditors.

But Chaim Haberfeld, head of Histadrut's trade unions department, disputed the job loss figure. He said the number of layoffs in the first year of the recovery plan would be "closer to 2,000."

Koor, the largest single employer in Israel and one of the country's major exporters, estimates a loss of about \$140 million in 1988. But it forecasts a return to the black by 1990.

SARA LEE BUYS SHARE OF ISRAELI FIRM
By Hugh Orgel

TEL AVIV, Nov. 13 (JTA) -- Sara Lee, the giant Chicago-based producer of frozen cakes, pies and other processed foods has just acquired a 25.1 percent stake in Delta-Galil Industries Ltd., Israel's largest manufacturer of underwear.

It paid \$16.7 million for the share and won 11.51 percent of Delta voting rights. Under the agreement, Sara Lee has a five-year option to buy another \$18.7 million worth of the Israeli firm.