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**ISRAEL AVOIDS VOTE ON PEACE TALKS;
GOVERNMENT COULD FALL ON THURSDAY**

By David Landau

JERUSALEM, March 11 (JTA) -- Israel's government of national unity teetered on the verge of collapse Sunday, after the Inner Cabinet failed to take a vote on the latest American proposals in the peace process.

The Labor Party leadership bureau, meeting in the afternoon, branded the Inner Cabinet's decision-not-to-decide an effective blockage of the peace process and "empowered the party's Knesset faction to take the appropriate parliamentary steps."

The party's Central Committee was expected to meet Monday to vote on the planned course of action.

The formal end of the present government could come Thursday, when the Knesset is to debate a series of no-confidence motions introduced by various opposition parties of the left and the right.

Prime Minister Yitzhak Shamir declared Sunday night that he still wanted the unity government to survive and that if he had "any new ideas," he would certainly communicate them to Labor in the hours and days ahead.

But the premier stated flatly that he would not now consider accepting what he had rejected up till now -- a clear reference to a last-minute compromise proposed by Defense Minister Yitzhak Rabin on Sunday morning, before the Inner Cabinet session.

Under the compromise, the Inner Cabinet would have responded favorably to the U.S. plan for Israeli-Palestinian talks in Cairo. But the contentious issue of which Palestinians would participate in the talks would be submitted to the Knesset for consideration.

Parties Wooing Orthodox

At stake is the participation of one or more residents of East Jerusalem and Palestinians deported from the territories. The Likud bloc opposes this, while Labor is more flexible.

Shamir said that the present Knesset had not been elected with this issue in mind, and that therefore the members of the Knesset did not have a mandate to vote one way or the other.

The prime minister would not say what course he would pursue if the present government did indeed fall.

But he indicated he was not inclined to accept the advice proffered by some of his aides that he dismiss the Labor ministers from the present government before they had a chance to formalize their resignation.

In this way, Shamir could continue to run the country for an interim period at the helm of a "transitional government" comprising only Likud, Shas and the National Religious Party.

The aides advising this course of action reportedly contend that this situation would best enable Shamir and the Likud to prepare for new elections. But other Likud insiders say that ousting Labor in this way would boomerang against the Likud in an election campaign.

Behind the scenes, the two major parties are busily wooing the various Orthodox parties. Likud

hopes to block a no-confidence vote and prevent Labor from forming a narrow-based government. Labor is hoping to pick up enough Orthodox support to do so.

The Orthodox parties, for their part, took a rare, unanimous stand Sunday: They all spoke in favor of additional efforts to preserve the present government.

Religious Affairs Minister Zevulun Hammer of the NRP said the gap between Labor and Likud was narrow enough to be bridged. Knesset member Menahem Porush of Agudat Yisrael said he was surprised Likud had spurned Rabin's compromise formula.

The Orthodox parties all professed themselves opposed to a narrow government of either political hue, stating a preference for new elections if the national unity coalition cannot be preserved.

Political observers expected, nevertheless, that this unified stand would quickly give way to detailed negotiations if and when it becomes clear that the present government is indeed collapsing.

Rabin Appears To Be Bitter

One objective complication, however, is that three of the four religious groups are discernibly split within themselves in their preferences. In Shas, Agudah and the NRP, there are Knesset members who favor an alliance with Labor and others who would prefer a partnership with Likud.

Only the two-seat Degel HaTorah faction, attached to the dovish Rabbi Eliezer Schach of Bnei Brak, is thought to lean toward Labor.

At the Labor leadership meeting Sunday afternoon, Vice Premier Shimon Peres, the party chairman, spoke of the present government in the past tense, accusing Likud of setting out earlier in the day to foil any chance of pursuing the peace process.

Rabin, too, spoke with bitterness against Likud, who had sought, he said, "to dictate to us, to put constraints on us, to bring us to surrender our positions and our beliefs."

"Well, we are not about to do that," he said.

Plainly peeved at Likud's having ignored his compromise formula, Rabin seemed to have acquiesced in the impossibility of continuing the partnership with Shamir.

But political observers cautioned that constitutional complexities mean there is still time for the prime minister and the defense minister to re-establish contact and devise some formula that could keep them together -- which is plainly what both of them would still prefer.

**NATHAN AGAIN MEETS WITH ARAFAT
IN TUNIS, DEFYING ANTI-TERROR LAW**
By Edwin Eytan

PARIS, March 11 (JTA) -- Israeli peace activist Abie Nathan, recently freed from prison, where he served time for having met with members of the Palestine Liberation Organization, made good on his promise to renew contacts with the PLO.

Nathan met Friday evening in Tunis with Yasir Arafat and other PLO leaders. In a telephone interview Sunday with the Jewish Tele-

graphic Agency, he said he was scheduled to meet with Arafat once more on Monday before leaving the Tunisian capital, where the PLO has its headquarters.

Nathan had to cancel several planned meetings for Sunday because of an intestinal infection that confined him to bed. But the illness did not appear to weaken his resolve.

"I know what I am risking and that I might be put on trial again upon my return to Israel this week," he told JTA. "But I am prepared to spend the rest of my life in prison, if this could help the peace process and help bring about a real and lasting peace between Jews and Arabs."

He said PLO chief Arafat had vowed to "never disrupt the peace process."

Nathan, 62, a former Israeli air force pilot who operates the Voice of Peace radio-broadcasting ship outside Israel's territorial waters, was sentenced in September to six months in jail for violating an Israeli law that forbids contact with terrorist groups. Nathan had met several times with Arafat.

He was released Feb. 9, having received two months off for good behavior. But last Tuesday, Nathan said he would renew his contacts with the PLO, regardless of the threat of new punishment.

Right Wing Demands His Arrest

The "important things in life, such as peace and freedom for people, are worth being locked up for," Nathan declared last week. He had said at the time that he would go first to Cairo and then to North Yemen. But he declined to say when he would travel, so as to avoid intervention by Israeli police.

On Sunday, right-wing members of Knesset attacked Israel Radio for having aired reports of Nathan's visit with Arafat, saying such publicity over the state-owned radio only helped to serve the interests of Israel's enemies.

Tzahi Hanegbi of Likud asked the attorney general to ensure that Nathan is arrested upon his return to Israel and that he serve the suspended one-year prison term that had been imposed on him in addition to his six-month term.

Nathan, who arrived in Tunis on Friday, met first with Bassam Abu Sharif, one of Arafat's closest advisers. He met later with Arafat at the PLO chief's home. They discussed the political situation in Israel and among the Palestinians.

Nathan said he told Arafat to discount media reports that claim Israel is opposed to peace. He told Arafat that most Israelis want peace and are prepared to continue the peace process.

According to Nathan, Arafat replied that he, too, wants peace, and stressed that, come what may, he would "never disrupt the peace process."

Arab League Moving To Cairo

Arafat told Nathan that he, too, has to deal with dissent, in his case from the Palestinian rank and file.

Israeli Prime Minister Yitzhak Shamir "is not the only one who has problems within his own camp," he said, referring to dissension within the Likud ranks. "I have my problems, too."

Nathan told the Israeli media by telephone that he had also appealed to the PLO leader to try to effect the release of Israeli soldiers held by terrorist organizations in Lebanon, and he said he would continue to discuss this issue.

Nathan said Arafat had shown sympathy for Israelis imprisoned for years and promised to do what he could to gain their release.

Meanwhile, the Arab League was also meeting Sunday in Tunis and decided to move its headquarters from there to Cairo. The decision reportedly was taken by unanimous vote of the 12 foreign ministers attending the meeting.

The Arab League moved to Tunis after Egypt signed the Camp David peace agreement with Israel in 1978.

After Egypt's recent improvement of relations with Libya and Syria, only the PLO remained to reject the move to Cairo, claiming that the league "will not be safe" only a few hundred yards from the Israeli Embassy.

The league delegates were in the lobby of the Hilton Hotel in Tunis, listening to reports of the events in Jerusalem. Among them was Egyptian Foreign Minister Esmat Abdel Meguid, who recognized Nathan and warmly shook his hand, saying, "Keep on fighting -- you are fighting for a good cause."

Nathan reportedly received a telephone call Sunday from a Hollywood producer who suggested making a movie about his life, starring Michael Douglas.

(JTA correspondent Hugh Orgel in Tel Aviv contributed to this report.)

ISRAEL RAIDS BASE IN NORTHERN LEBANON By Hugh Orgel

TEL AVIV, March 11 (JTA) -- The Israeli air force carried out an unusually long-range attack in Lebanon on Friday, when aircraft struck a terrorist base in Khan Khayat, north of Tripoli, not far from Lebanon's northern border with Syria.

The target was a naval base operated by Ahmed Jabril's Popular Front for the Liberation of Palestine-General Command.

Reports from Beirut said that four people were killed in the attack, carried out by six planes. The Jabril organization said that two of its sailors had been killed.

The base is said to have been a training ground for marine commandos and a point of departure for seaborne attacks against Israel.

VIOLENCE ERUPTS IN JERUSALEM By Gil Sedan

JERUSALEM, March 11 (JTA) -- The 28th month of the intifada began over the weekend with renewed tension in Jerusalem, partly a result, it seems, of American statements equating East Jerusalem with the administered territories.

At least one person was killed during violent demonstrations at the Shuafat refugee camp in the northern outskirts of Jerusalem.

The police used rubber bullets and live bullets, a rare phenomenon in Jerusalem, where police have been under strict order to exercise maximum restraint before using live ammunition.

In other violence, five cars were set on fire Saturday night in the German Colony, a Jewish neighborhood in the heart of Jerusalem. Gasoline canisters were found nearby.

Two senior officers were appointed Saturday to investigate the incidents. But Mayor Teddy Kollek said he had no doubt the background of the renewed unrest was the recent American statements regarding Jerusalem.

Violence also was reported in Nablus, where several hundred masked demonstrators carrying the outlawed Palestinian flag chanted nationalist slogans and wielded axes.

EAST GERMAN LEADER SAYS GDR IS READY TO PAY REPARATIONS, RECOGNIZE ISRAEL

By David Kantor

BONN, March 11 (JTA) -- East Germany fully recognizes its special responsibility toward Jewish victims of the Holocaust and is ready to establish diplomatic relations with Israel, East German Prime Minister Hans Modrow has declared in a letter to his Israeli counterpart, Yitzhak Shamir.

The letter was presented Friday at the end of two days of talks between East German and Israeli diplomats in Copenhagen.

The two sides, which first convened for three days of talks at the end of January, met this time to discuss the issue of indemnification of Jewish Holocaust victims and possible payments to the State of Israel.

According to sources in East Berlin, the East German and Israeli delegations in Copenhagen also discussed the many years that East Germany trained Palestine Liberation Organization terrorists, a program that ended with the demise of the Communist regime in East Berlin last fall.

The negotiations mark the first time since the Holocaust that East Germany, formally known as the German Democratic Republic, has admitted to being accountable for German atrocities perpetrated by the Nazis against the Jews.

On Feb. 8, East Germany formally acknowledged its share of responsibility toward victims of Nazi persecution. Previously, East Germany denied any such guilt, saying its Communist leaders had always opposed the Nazis.

In another sign of progress, the national airlines of East Germany and Israel signed an agreement last month recognizing each other's airline tickets.

Progress Awaits Elections

But analysts say that despite the signs of warming relations, no real diplomatic breakthrough can take place in the current political climate. And the issue may become moot as unification of the two Germanys comes closer to implementation.

The Israeli and East German diplomats decided to meet again after the nationwide elections in East Germany, which are scheduled for next Sunday.

It is highly likely that those elections will cost Modrow, a Communist, his job, and that non-Communist leaders chosen by the people may then act to merge the nation into a unified Germany.

West Germany, which has been apprised of the Copenhagen talks, has expressed irritation at the possible establishment of diplomatic relations between Israel and a separate East German state, at the same time that the two Germanys are discussing unification.

The West Germans have said privately that Bonn will wind up having to pay any reparations agreed upon by Israel and East Germany. West Germany has paid restitution to both Israel and Holocaust victims since the 1950s.

"We are not against these talks," a West German diplomat said here. "But we certainly want to be informed about possible consequences in regard to a future, united Germany."

But an East German diplomat said it was important to untangle relations with Israel, no matter how short-lived the German Democratic Republic may be.

"We can't cease all activities and wait for unification," the diplomat said. "Life goes on."

EUROPEAN COMMUNITY TO RESCIND SANCTIONS AGAINST ISRAEL SOON

By Hugh Orgel

TEL AVIV, March 11 (JTA) -- The European Community has notified Israel that all E.C. sanctions against the Jewish state will be rescinded before the next meeting of the community's foreign ministers in April, according to a report Friday in the daily newspaper Ma'ariv.

The announcement reportedly came during the course of a three-hour meeting last week between Israeli representatives and the European Commission, the E.C.'s executive body. The two sides hold annual discussions.

There was no immediate confirmation of the news from Brussels, where the E.C. is based.

The European Parliament voted Jan. 17 to recommend punitive measures against Israel because of its alleged contempt for human rights in the West Bank and Gaza Strip. The parliament, which convenes in the French city of Strasbourg, is the E.C. legislative body.

The European Commission followed suit by postponing the signing of an agreement on energy cooperation with Israel and canceling scheduled talks on scientific cooperation with Israel.

Avi Primor, Israel's ambassador to the E.C. in Brussels, who headed the Israeli delegation at last week's talks, reportedly spoke out against "mixing political problems and practical relations."

In response, the Irish chairman of the commission stated that all sanctions against Israel will be rescinded by April 2, when Israeli Foreign Minister Moshe Arens is scheduled to address the E.C. Council of Ministers.

DOGS FETCHING A PRETTY PRICE FOR SOVIET OLIM IN NEED OF CASH

By Hugh Orgel

TEL AVIV, March 11 (JTA) -- A surprisingly large number of newcomers from the Soviet Union have been arriving at Ben-Gurion Airport with dogs.

But it now appears that many of the canine members of the family are not longtime beloved family pets but rather recent acquisitions, purchased as a means to get part of their savings out of the country.

A Tel Aviv veterinarian reports that she has recently received many telephone calls from Jews in Moscow, Odessa, Kiev, Leningrad and other Soviet cities, whom she did not know, asking her advice as to the "best and most valuable breeds" in demand in Israel.

They said they had obtained her name and phone number from friends who have already arrived here with dogs.

The vet says her advice to her callers is to bring with them any pets they may already have, but not to buy any dogs to be sold here at a profit. Israel is a small country, she explains, which already has a sufficient stock of domesticated animals.

She says that in conversations with the Soviet callers, she has been surprised to learn that in many families, only the husband works.

Asking how they managed to save enough money to buy expensive dogs, she is told that there are not enough goods available in Soviet shops on which to spend even meager incomes. Hence, the opportunity to save vast amounts of money.

NEWS ANALYSIS:**U.S. APPEARS TO BE COMPOUNDING
CONFUSION OVER JERUSALEM POLICY**

By David Friedman

WASHINGTON, March 11 (JTA) -- More than a week after President Bush first raised doubts about the U.S. position on Jerusalem, there is still confusion about where the administration stands.

The confusion has been kept alive by contradictory statements made in recent days by top officials of the Bush administration.

They seemed to be saying, on one hand, that Jews, including Soviet immigrants, can live in East Jerusalem. But on the other hand, the statements seemed to say, Jews should not live there until the future of Jerusalem, the West Bank and Gaza Strip is decided through negotiations.

Israel annexed East Jerusalem shortly after capturing it in 1967. It regards it as an indivisible part of the capital.

An example of the administration's confusing stance came at a briefing last Thursday by State Department spokeswoman Margaret Tutwiler, who repeatedly insisted that there had been no change in U.S. policy since the 1967 Six-Day War.

"We believe strongly that Jerusalem must never be divided again," Tutwiler said. She said one of the U.S. goals in working toward Mideast peace is "to assure Jerusalem remains unified."

At the same time, Tutwiler repeated the U.S. position that settlements in the administered territories, including East Jerusalem, are an obstacle to peace.

"All the territories occupied in 1967 are still occupied," she told reporters, adding, "You know what they are."

What Is Meant By East Jerusalem?

But she vehemently denied that she was saying that East Jerusalem was occupied territory, since it had been regained by Israel in the Six-Day War, along with the West Bank and the Gaza Strip. "Have you heard me say that?" she asked defiantly.

The controversy began March 3, when Bush said he opposed new settlements in the West Bank and East Jerusalem. Bush sought to clarify his position in a phone call March 5 to Seymour Reich, chairman of the Conference of Presidents of Major American Jewish Organizations.

But then a White House statement on the conversation further clouded the issue.

The statement said Bush had indicated U.S. support for a united Jerusalem. "The president also made clear U.S. support for Jews, as well as others, to live there in the context of a negotiated settlement," it said.

The administration still has not said whether this means Jews should not live in East Jerusalem until a negotiated settlement is reached.

Also unclear is whether the administration is really talking about East Jerusalem or, as some suspect, the new Jewish neighborhoods built over the 1967 borders that have been incorporated into the Jerusalem city limits.

Jewish leaders thought the situation was cleared up March 6, when both Vice President Dan Quayle and John Sununu, the White House chief of staff, told separate Jewish audiences that the United States does not oppose Jews living in East Jerusalem.

But then the next day, David Welch, director of Near East and South Asian affairs for the National Security Council, told another Jewish

group that the United States has always been concerned about "settlement activity" in East Jerusalem.

Malcolm Hoenlein, executive director of the Conference of Presidents, said the Bush administration has been asked to clarify the contradictions. "We want to put the matter behind us," Hoenlein said.

Reich Issues Critical Statement

But on Sunday, the chairman of the conference, Seymour Reich, issued a statement here that went further, by directly criticizing the administration's "mixed signals" as having "undermined the confidence necessary for Israel to take those risks for peace that the administration asks."

"Quite understandably, anxiety in Israel has grown since the issuance of various administration comments indicating that East Jerusalem is considered no different from the West Bank, rather than being regarded as part of a united city," Reich said.

"To introduce ambiguities on Jerusalem at this extremely delicate phase" is "counterproductive to the advancement of the peace process," he said.

Mendel Kaplan, chairman of the Board of Governors of the Jewish Agency for Israel, took a similarly strong stance against the administration Sunday.

Speaking here to the seventh National Young Leadership Conference of the United Jewish Appeal, Kaplan said, "Mr. President, Jerusalem is not for sale. This is not a negotiation, this is our people. The center of our life is Jerusalem, and we will never sell Jerusalem."

The administration's statements also provoked a defiant response from Israel. Construction and Housing Minister David Levy announced last Friday that Israel would immediately begin construction of 3,000 Jewish homes in East Jerusalem, some of them for Soviet immigrants.

The Bush administration's contradictory stance on Jerusalem is the result of conflicting policy goals, according to Martin Indyk, executive director of the Washington Institute for Near East Policy, a pro-Israel think tank.

Not A Slip Of The Tongue

Indyk believes Bush wants to move forward on Israel's peace initiative. But at the same time, the president's instincts, bolstered by the views of some of his advisers, are to focus on the settlements, Indyk said.

He believes that Bush did not make a slip of the tongue when he mentioned East Jerusalem on March 3.

The president reportedly has been deeply concerned about the settlement of Soviet Jews in the West Bank since Israeli Prime Minister Yitzhak Shamir said several weeks ago that a "big Israel" would be needed to settle all of the Soviet immigrants.

Although Shamir has since assured the president that only about 1 percent of Soviet immigrants have gone to the West Bank, Bush's aides have claimed that large number of Soviet Jews are settling in East Jerusalem and the Jewish neighborhoods around it.

The contradiction that appeared last week "has emerged at the worst possible time for U.S. policy" in the Middle East, Indyk said. But he said Bush's remarks stemmed from a "concern about settlements, not a concern about the peace process."