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**LEVY AND BAKER DISCUSS GULF CRISIS,  
STEPS TOWARD PALESTINIAN DIALOGUE**

By David Friedman

WASHINGTON, Sept. 5 (JTA) -- Israeli Foreign Minister David Levy and U.S. Secretary of State James Baker emerged Wednesday from their first meeting promising to work together to bring about an Israeli-Palestinian dialogue.

Levy praised U.S. efforts to end Iraqi aggression, and Baker, in turn, praised Israel's support and willingness to stay on the sidelines of the international effort to force Iraq out of Kuwait.

The secretary stressed that the Israeli-Palestinian issue is separate from the crisis in the Persian Gulf, a clear indication that the United States does not accept a Soviet proposal for an international conference to deal with both the Gulf and the Israeli-Palestinian issue.

Both Levy and Baker indicated that the most important outcome of their three-hour meeting at the State Department, an hour longer than scheduled, was the establishment of a personal rapport.

"Personal relationships are very important," Baker said as Levy called him "chaverim Jim" (my friend Jim).

It was not clear whether the two leaders had many any concrete steps forward toward reaching an Israel-Palestinian dialogue. Baker stressed that it would be a "dialogue about elections" that Prime Minister Yitzhak Shamir has proposed for the West Bank and Gaza Strip.

Baker indicated that he still supports his proposal for a dialogue, though the question of who will represent the Palestinians is still unresolved.

**Loan Guarantees Discussed**

Israeli sources said Levy has come up with some way of meeting Baker's concern that Palestinians living in East Jerusalem and those deported from the territories be represented in the Palestinian delegation.

Until now, the ruling Likud party has been adamantly opposed to inclusion of such delegates, in part because it could compromise the status of Jerusalem as the united capital of Israel.

Baker also reported that some progress was made on freeing up U.S. guarantees for \$400 million in loans to build housing for Soviet Jewish immigrants in Israel. Congress has approved such guarantees, but the administration has held them up until it receives certain "assurances" from Israel.

Baker said it was made clearer to Levy exactly what assurances the administration wanted, the chief one being that none of the funds would be used to house Soviet Jews in the West Bank or Gaza Strip.

While the State Department talks centered on the Persian Gulf and the Middle East peace process, there also was discussion of several other issues, including the Israeli economy, and the emigration of Soviet and Ethiopian Jews, Baker said.

Late reports from Israel said that Levy had been invited to meet Thursday with President Bush. But the White House press office could not confirm that such a meeting was planned.

**U.S., MINDFUL OF LONG-TERM THREAT,  
SEEKS SECURITY ARRANGEMENT FOR GULF**

By Howard Rosenberg

WASHINGTON, Sept. 5 (JTA) -- The Bush administration is seeking "new regional security arrangements" that would protect the Persian Gulf against future invasions from aggressors such as Iraqi President Saddam Hussein, Secretary of State James Baker told Congress this week.

"I don't know any reason we can't develop a regional security structure that can constrain this man or any other leader who might have the same ambitions and desires. It worked in Europe," Baker told the House Foreign Affairs Committee on Tuesday.

But on Wednesday, the secretary said the security structure would not follow any particular model, such as the North Atlantic Treaty Organization, which is credited with preserving the peace in Europe since World War II.

The United States is not "calling for a NATO of the Middle East," he told the Senate Foreign Relations Committee.

He also said such arrangements could not be worked out until after the current crisis in the Gulf is resolved.

Baker said there could be some security benefit to Israel in such a pact, because it could be used to deter any Iraqi biological or chemical weapons attack.

The secretary also assured pro-Israel members of Congress that the United States remains committed to maintaining Israel's qualitative military edge in the Middle East, even as it provides new sophisticated weaponry to Saudi Arabia.

When pressed on that concern by Rep. Benjamin Gilman (R-N.Y.), Baker said, "We've not only given thought to that, Mr. Gilman, that's a commitment of the United States that has existed as far I can remember, for the 10 years that I have been in government, and it's a commitment we intend to honor."

**Rejects Linkage To Territories**

On the current crisis, Baker said there is no sign that Iraq's effort to unite Arab public opinion against Israel will succeed. "The message is not selling," he said.

Baker also termed as "unacceptable" Iraq's proposal to link resolution of the Gulf crisis with an Israeli withdrawal from the West Bank and Gaza Strip, and a Syrian and Israeli withdrawal from Lebanon.

"While they relate to each other and impinge upon each other in some ways, they are nevertheless two separate issues and should be dealt with separately," he said.

The secretary was asked about Soviet Foreign Minister Eduard Shevardnadze's call Tuesday for an international peace conference to resolve the various Middle East disputes.

Baker did not respond directly, but observed, "There's quite a bit of support out there around the world for that."

The United States has never ruled out the possibility of such a conference, he pointed out. But previously, it told its European allies, who support the idea of such a conference, that it

"would make sense first to see if we can't get some sort of a dialogue established between Israelis and Palestinians."

Since such a dialogue "offers the best chance" for progress on the peace process, the United States has told its allies that "plans for an international conference should be put on the back burner," he said.

Baker said that the United States might welcome a more active Soviet role in the Middle East, given its support of the U.N. sanctions against Iraq.

"I think this proves that it is not only not a bad thing to do, but it is quite fortuitous, at least in this instance," he said.

Rep. Jim Leach (R-Iowa) suggested to Baker that one way to resolve the Arab-Israeli conflict would be to declare any liberated Kuwait the new Palestinian homeland.

The secretary did not have any direct response. But Rep. Henry Hyde (R-Ill.) later said he would "hate to see" Palestine Liberation Organization leader Yasir Arafat "with all of that oil."

# ISRAEL IS ON HIGH STATE OF ALERT AND WANTS U.S. TO HELP BEAR COST By Hugh Orgel

TEL AVIV, Sept. 5 (JTA) -- The first public admission that Israeli forces have been on a higher-than-usual state of alert because of the Persian Gulf crisis was made Tuesday by Defense Minister Moshe Arens.

Arens told some 50 leaders of the State of Israel Bonds Organization, here to celebrate the group's 40th anniversary, that the United States should compensate Israel for the high cost of the military alert.

Arens said President Bush's proposal to forgive Egypt's \$7 billion debt was "understandable under the circumstances." But he added that when the United States talks of "burden-sharing" in the crisis, it should not forget the cost borne by Israel.

Earlier in the week, Finance Minister Yitzhak Moda'i suggested that the United States forgive Israel's debt, which amounts to some \$4.5 billion. But Israel has not formally requested such a waiver.

Meanwhile, in a separate meeting Tuesday night with the Bonds leaders, Deputy Foreign Minister Binyamin Netanyahu said the American Israel Public Affairs Committee and other pro-Israel lobbying groups in Washington must fight the proposed emergency sale of sophisticated U.S. arms to Saudi Arabia, because they pose a threat to Israel and create greater instability in the region.

Speaking with a sarcastic edge to his voice, Netanyahu mocked the ability of Arab nations to figure out how to use the sophisticated weaponry they have already acquired.

"How can one expect a Saudi Arabian to be a fighter pilot when they haven't yet invented a Saudi bricklayer?" he asked.

Netanyahu said that pro-Israel lobbying groups in the United States must also ensure that the Palestine Liberation Organization is not permitted to restore its now-tarnished image.

The PLO is no longer the "sacred cow" of the West, now that its leader, Yasir Arafat, has supported Iraqi President Saddam Hussein, he said.

"The PLO has been wounded," he said, "but we must be sure it is killed. Otherwise it will start grazing again."

# ARENS MEETS KOHL ON GULF CRISIS; AGREEMENT ON SUBMARINES LIKELY By David Kantor

BONN, Sept. 5 (JTA) -- Chancellor Helmut Kohl and Israeli Defense Minister Moshe Arens, who met for more than two hours here Monday evening, have agreed that the crisis in the Persian Gulf should best be resolved by political means.

The two also discussed Israel's security in light of the Gulf crisis.

Arens held a two-hour meeting Sunday evening with his West German counterpart, Gerhard Stoltenberg.

The two discussed the general situation but specifically the issue of submarines that West Germany has said it will supply to Israel.

The Israeli military establishment is divided over whether to go through with the costly deal, which would require scrapping other defense programs.

The deal involves the construction of two modern Dolphin-class submarines tentatively ordered from a West German shipyard. A decision on the purchase was postponed last month.

The order for the undersea craft, valued at \$580 million, was due by this month. If not submitted, Israel will have to pay a very heavy penalty to the German shipyard, under the terms of the original letter of intent.

According to reports in Israel, Jerusalem is seeking more favorable financial conditions from Germany, which is eager to build the vessels in order to head off a crisis in the shipyards of Kiel, where the craft would be built.

A West German government spokesman would not confirm or deny speculation that the submarine deal had been discussed in the meeting between Arens and Kohl.

But well-informed sources indicated the deal is likely to go through.

West Germany is highly interested in the deal because it would guarantee employment for hundreds of workers for a long period of time.

West Germany also hosted on Monday Jordan's King Hussein, who was touring Western European nations to discuss a means to resolving the crisis.

The king received assurances that Bonn will make \$12.6 million available to help Jordan cope with the hundreds of thousands of refugees fleeing Kuwait and Iraq.

# JEWISH SCHOOL TO OPEN IN ETHIOPIA By Gil Sedan

JERUSALEM, Sept. 5 (JTA) -- A new Jewish school will be opened shortly in the Ethiopian capital of Addis Ababa, the World Zionist Organization announced Wednesday.

The school will serve the thousands of Jews who have come to the capital from strife-torn regions in the north and who are reported ailing and despondent as they wait to leave for Israel.

The WZO Diaspora Torah Education Department operated Jewish schools in Ethiopian villages as early as the 1950s.

But many of those programs were ended when thousands of Ethiopian Jews left the country in the mass exodus of the mid-1980s, which came to be known as Operation Exodus.

Today, some 3,000 Ethiopian youth study in Israel in programs run by the Youth Aliyah department of the WZO.

## GULF CRISIS TO DOMINATE SUMMIT, BUT SOVIET JEWRY WON'T BE IGNORED

By David Friedman

WASHINGTON, Sept. 5 (JTA) -- While the Persian Gulf crisis will likely dominate discussions Sunday between President Bush and Soviet President Mikhail Gorbachev, the issue of Soviet Jewry will not be forgotten during the one-day summit meeting in Helsinki, Finland.

"We expect our concerns to be raised at some point during their talks," said Mark Levin, associate executive director of the National Conference on Soviet Jewry.

Levin said Wednesday that the National Conference has been assured by State Department officials that human rights will be on the summit agenda, specifically the status of a long-promised law that would formalize reforms in Soviet emigration policy.

After Bush and Gorbachev signed a trade agreement at their summit in Washington this spring, Bush stressed he would not send the treaty to Congress for ratification until the law was adopted by the Supreme Soviet.

Bush also made the law's adoption a prerequisite for the waiving of sanctions in the Jackson-Vanik Amendment to the U.S. Trade Act. Doing so would allow the Soviets to receive certain U.S. trade benefits, known as most-favored-nation status.

The Supreme Soviet has postponed adoption of the law several times, but could act when it reconvenes later this month.

Gorbachev is expected to make a bid for U.S. help because of the Soviet Union's dire economic straits. But the Bush administration is still committed to linking MFN status to the immigration law, Levin said.

In addition, there is no support in Congress for economic aid to the Soviet Union right now because of the U.S. government's own budget deficit problems.

During the Helsinki talks, U.S. officials are expected to raise the issue of long-term refusniks still not being allowed to emigrate despite the increasing number of Soviet Jews leaving the Soviet Union, said Levin.

Shoshana Cardin, chairwoman of the National Conference, expressed hope in a statement issued Tuesday that Gorbachev "will act swiftly to resolve this issue once and for all, so that all Soviet Jews who wish to do so are able to exercise their basic human right of free emigration."

## PALESTINIANS GO BACK TO SCHOOL IN ATMOSPHERE OF RELATIVE CALM

By Gil Sedan

JERUSALEM, Sept. 5 (JTA) -- Relative calm prevailed in the West Bank and Gaza Strip on Wednesday, as close to 200,000 Palestinian children went back to school.

As students returned to classes at some 1,100 elementary schools in the territories, parents and teachers prayed that their studies would not be interrupted by the authorities, who had shut down schools in the past when they became centers of intifada activism.

That is not likely to happen again, if Palestinians obey an order issued by the Unified Command of the uprising, which said that studies should not be mixed with political protest.

The first day of the school year coincided with the 1,000th day of the Palestinian uprising,

which has subsided considerably in recent weeks. Security experts attributed the relative calm to the fact that all eyes are now directed to the crisis in the Persian Gulf.

The marked drop in casualties during the past weeks has been largely due to strict restraining orders issued to Israel Defense Force troops by Defense Minister Moshe Arens. Soldiers also were ordered to keep away from the vicinity of schools during study hours to reduce the possibility of clashes.

The tranquillity was broken, however, when, despite that order, Brig. Shaikha Erez, head of the Civil Administration in the West Bank, visited an elementary school in the West Bank town of El-Bireh. Stones were thrown at the schoolyard, a reminder of the potentially explosive situation.

The reopening of the schools will be gradual and will depend on individual situations. If the atmosphere remains calm, the Civil Administration plans to reopen junior high schools next week and high schools the following week.

A gradual reopening of schools also is taking place in the Gaza Strip.

All the colleges and universities in the West Bank and Gaza Strip were closed in October 1987, two months before the intifada erupted. In February, 16 colleges were reopened, but the larger universities remained closed.

Next month, the University of Bethlehem will be reopened. But the more politically troublesome universities, Bir Zeit in Ramallah and A-Najah in Nablus, will remain closed for the time being.

## VANDALS DEFACE WARSAW MONUMENT WHERE JEWS WERE SHIPPED FROM GHETTO

By Ruth E. Gruber

WARSAW, Sept. 5 (JTA) -- Government officials and Jewish leaders alike are deploring the defacement early this week of a monument to Warsaw victims of the Holocaust.

Vandals scrawled an anti-Semitic slogan on the white marble wall located at the site of the Umschlagplatz, the railway sidings at the northern edge of where the Warsaw Ghetto once stood.

The slogan "A good Jew is a dead Jew," scrawled in big red letters, was discovered Monday and believed to have been painted Sunday night. The slogan was erased, but it took 24 hours for that to be done.

Witnesses said there was slight physical damage to the wall itself.

City officials lamented the incident, and Aleksander Hall, government minister for relations with political parties, laid a wreath at the spot.

Sharply condemning the desecration, Hall said it cast a shadow on the immense majority of Poles who consider such acts disgusting.

But he warned against regarding such acts as an indication of a mounting tide of anti-Semitism.

The anti-Semitic vandalism also was deplored by a visiting interfaith group based in New York.

Members of the Temple of Understanding, who are touring Eastern Europe, were worried by the incident. However, the group also praised Poland's new role in helping Soviet Jews immigrate to Israel by providing Warsaw airport as a transit point.

At a news conference here Monday night, Leonard Marks, vice president of the 30-year-old organization, also said Poland "has gone a long way toward warming relations between Jewish and Christian groups."

**BEHIND THE HEADLINES:**

**DERI SCANDAL GRABS ISRAELI HEADLINES, COULD HAVE MAJOR POLITICAL FALLOUT**

By David Landau

JERUSALEM, Sept. 5 (JTA) -- For the first time in a month, the Persian Gulf crisis has been squeezed off the front pages of Israeli newspapers to make space for coverage of a burgeoning public scandal that has all the makings of an Israeli-style Watergate affair.

The drama centers around Interior Minister Arye Deri, but other main players include Police Inspector General Ya'acov Turner and Mordechai Gilat, an investigative reporter for the mass-circulation daily Yediot Achronot.

On Tuesday, a team of five senior police investigators drove into the Interior Ministry in Jerusalem and closeted themselves with Deri for what was to be the first of several interrogation sessions.

As dozens of reporters and photographers milled around the courtyard of the Interior Ministry, police sources told Israel Radio there was already sufficient evidence of wrongdoing to bring charges against the minister.

The affair is replete with legal, political, ethnic and religious overtones. The High Court of Justice is already heavily involved, and the repercussions could yet affect the stability of the Shamir government -- just as it is strengthening its base of popular support through its cool handling of the Persian Gulf crisis.

The story started earlier in the summer, when Gilat began publishing a series of expose pieces in Yediot, alleging that the Interior Ministry under Deri was illegally funneling vast sums of taxpayers' money, through cowed or compliant local authorities, to educational and social institutions affiliated with Deri's Shas party.

**Scandal Escalated With Wiretap**

Deri and his supporters launched a spirited counterattack, publishing a series of full-page ads in all newspapers other than Yediot accusing the paper and its reporter of ulterior motives, anti-Sephardic sentiments, deliberate distortion and discrimination by singling out Deri and his ministry for a practice that is widespread in the Israeli bureaucracy.

They insist there has been no wrongdoing or illegality. Deri maintains that all funds paid out by local authorities were properly budgeted and accounted for and that there was no reason for these authorities not to help fund Sephardi Torah institutions operating within their localities.

The affair had been simmering for several weeks, as senior police investigators collected information from local authorities, rabbis and educators all around the country, in preparation for what was to be the climax of the investigation: the interrogation of Deri himself. The police had earlier seized crates full of documents from the Interior Ministry offices in Jerusalem.

But a new, explosive twist to the scandal surfaced dramatically when an illicit bug was discovered in Gilat's apartment, complete with sophisticated recording equipment hidden in a motorbike parked outside.

Since that development last week, the action has intensified. The police have made a series of arrests in connection with the wiretap. Among those held is the parliamentary aide of one of the Shas Knesset members, Rabbi Arye Gamliel. Other arrests include shadowy figures, among them a

former policeman who reportedly taps phones on contract for criminal elements.

By law, only a district court judge or, in cases of national security, the minister of defense, can permit a wiretap.

**Tape Mysteriously Surfaces**

Police sources have leaked that the tapes of the wiretap had been making their way to Shas circles, perhaps even to Deri's office.

Deri and his supporters have hit back with leaks of their own that one tape records a conversation between reporter Gilat and Inspector Turner, in which the journalist appears to be leading the police investigation with information of his own. Shas sources contended that Gilat had an ax to grind and got Turner to do his bidding.

Turner at first dismissed this account. By midweek, though, he was saying that there is nothing wrong with the police receiving information from investigative reporters.

When Communications Minister Rafael Pinhasi, a Shas colleague of Deri's, raised the issue at Sunday's Cabinet meeting, Turner said the police did not have the tape in question, only a purported transcript of it, picked up at the home of one of the men arrested in the wiretap affair.

But an anonymous hand straightened out that problem on Monday, leaving a purported copy of the tape in a Tel Aviv cafe located close to the Special Branch headquarters of the police. It was found and turned over to the men in blue.

What, then, is on the tape? The answer to that seemingly plain question was still shrouded in mystery by midweek.

No one could officially admit to having listened to the tape, because the High Court of Justice, at the behest of Gilat and other journalists, slapped a temporary injunction forbidding the tapes to be heard, on the grounds that they were the product of a criminal act, the wiretap.

The Knesset Interior Committee, which met with Turner on Monday and had intended to hear the tape, recessed without hearing it.

The legal question of whether the tapes can be used in evidence on matters not directly pertaining to the wiretap investigation will eventually be decided by the court.

**Clash With Likud Possible**

Political analysts, meanwhile, are speculating on the broader impact of the affair.

Some believe that if Deri succeeds in turning the tables on his accusers and emerges unscathed, there will be a sweeping revival of Shas' popularity in the Sephardi sector. It could quickly wipe out the memory of the political setback suffered by the party after the coalition crisis in March, when Shas sided with the Labor Party in bringing down the government and then backed Likud.

The scandal could also have political repercussions if Deri and Shas come to the conclusion that either Labor or Likud had a hand in the campaign against the interior minister.

Others suggest that Deri's fight to clear his name and impugn others could lead to conflict between Shas and Likud. Police Minister Ronni Milo of Likud has so far stood solidly behind the police chief, while Prime Minister Yitzhak Shamir has sought to remain neutral.

A battling Deri could cause major political and social repercussions, too, if significant numbers of Shas sympathizers buy the line that ethnic and/or religious discrimination lie behind the police investigation.