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**ISRAELI CABINET APPROVES PLAN
TO BOOST ECONOMY WITH MORE TAXES**

By David Landau and Gil Sedan

JERUSALEM, Sept. 13 (JTA) -- Israel's Cabinet, after a 10-hour special session Thursday, unanimously approved Finance Minister Yitzhak Moda'i's far-reaching economic program aimed at creating jobs for Soviet Jews pouring into the country and ending the economic stagnation of the last three years.

Moda'i's program would increase the tax burden on ordinary Israelis, but the net effect would be to stimulate local investments and exports to help generate at least 500,000 new jobs for up to a million immigrants expected in the next five years.

Though the plan has the Cabinet's support, it faces a stiff battle in the Knesset and powerful resistance from Histadrut, Israel's trade union federation. Its chief, Yisrael Kessar, made clear Thursday he would not accept a plan that reduced the living standard of the average worker.

Although Moda'i's ideas were known in general outline, there were some sharp surprises at the Cabinet session.

One was his proposal for a capital gains tax on companies and individuals. The Treasury eased the shock by explaining that the levy would be imposed only on new saving plans, not existing ones. Taxes will also be imposed on lotteries and on the sale of luxury flats of more than \$300,000.

Also unexpected was the plan to impose a 16 percent value added tax (VAT) on services provided for tourists, and on fruits and vegetables sold at market stalls.

It triggered fierce opposition from Tourism Minister Gideon Patt and Agriculture Minister Rafael Eitan.

Israeli companies have paid for capital gains on their shares since 1982, though loopholes in the law allowed many profitable transactions to escape taxation. Those loopholes would be abolished under Moda'i's scheme.

Tourism Industry Hit Hard

Individual benefits from pension and savings funds have never been taxed. Under the new plan, future profits from such sources would be taxed at a flat rate of 20 percent per annum.

But the capital gains tax would not be applied to profits derived from shares purchased on the stock market.

According to economic observers, the government wants to encourage citizens to invest their spare cash in stocks, so that Israeli industries can accumulate more capital and presumably create more jobs.

The proposal to charge tourists a 16 percent VAT aroused a storm of protest from that industry, which has suffered a serious decline as a result of the intifada and more recently the Persian Gulf crisis.

Tour and hotel bookings have been canceled wholesale this month and some tour companies and hotels have begun to lay off staff.

Tourism Minister Patt reportedly warned at the Cabinet meeting that once lost, those vacationers would not quickly return to Israel.

Opposition to the VAT on fruit and vegeta-

bles was led by Eitan who warned it would inevitably encourage a black market in produce.

The measure was referred to a ministerial committee for a final decision. If the committee does not approve the tax, it will have to propose alternative sources of revenue.

Moda'i's plan dovetails with new measures proposed by Commerce Minister Moshe Nissim to simplify investment regulations and offer higher government guarantees to overseas investors.

But Israeli wage-earners stand to suffer, and not only because the price of cigarettes will rise by 16 percent and beer by 14 percent.

With unemployment hovering between 9 percent and 10 percent and threatening to go higher as thousands of immigrants enter the job market, the government plans to put more people to work by tinkering with the minimum wage.

Under the new plan, it will not apply to new workers in their first six months of employment.

Unemployment insurance benefits will be reduced to create incentives to take whatever jobs are offered, however menial.

Meanwhile, the Finance Ministry and the Bank of Israel engineered a modest devaluation of the shekel this week to help the export industry. Hopefully, those measures will facilitate jobs for tens of thousands of olim.

With aliyah projections steadily revised upward, the government is desperate to provide jobs to ward off the danger of social unrest.

But the new plan leaves open the questions of where it will get the billions of shekels needed to absorb massive aliyah, how it intends to compensate wage-earners for price hikes and how to prevent runaway inflation.

**SHAS URGES END TO DERI AFFAIR,
DECIDES NOT TO QUIT GOVERNMENT**

By David Landau

JERUSALEM, Sept. 13 (JTA) -- The leadership of the Shas party, calling for an end to what it terms an unfair campaign against Interior Minister Arye Deri, nevertheless has no intention of quitting the Likud-led coalition over the issue.

Deri, 31, a protégé of Rabbi Ovadia Yosef, Shas's pre-eminent spiritual mentor, is suspected of improper disbursement of ministerial funds and other financial improprieties.

The probe is being conducted by the Justice and Police ministries, both controlled by Likud.

The four rabbis of Shas' Council of Sages, headed by Yosef, urged Prime Minister Yitzhak Shamir on Wednesday night to put an end to the "unfair campaign of leaks and defamation of character" they implied the police were waging against Deri.

The council called the young Cabinet member "an emissary of the rabbis, honest and loyal, active and successful on behalf of Torah and education, who has raised the profile of Sephardic Jewry."

Communications Minister Rafael Pinhasi of Shas demanded that the police either bring formal charges or drop the case.

Police Minister Ronni Milo responded in a television interview Wednesday night that the investigation would be expedited if Deri stopped stonewalling and cooperated with the authorities.

Deri, for his part, accused the police of dropping innuendos and tendentious leaks for three months before they got around to questioning him only last week.

The police wanted to be seen "going through the motions," Deri charged and said he would not answer their questions at this stage.

The police, meanwhile, are coordinating their investigation of Deri with evidence that the minister and his aides illegally arranged to tap the telephone of Yediot Achronot reporter Mordechai Gilat, who broke the Deri story.

A former police officer, Ilan Hamra, told reporters Wednesday that he tapped Gilat's phone and handed the tapes to a Shas aide, Yossi Tsuberi, for delivery to Deri.

Tsuberi was arrested with the evidence and released on bail. He claimed Deri knew nothing of the matter.

U.S. EMBASSY WAS A PRIME TARGET OF ABORTED SEABORNE TERROR ATTACK By Gil Sedan

JERUSALEM, Sept. 13 (JTA) -- Palestinian terrorists who took part in the May 30 terrorist attack on Tel Aviv area beaches had the U.S. Embassy as one of their prime targets, according to formal charges brought Thursday in a Lod military court against 11 survivors of the raid.

The court ordered them held in custody for the duration of legal proceedings. A 12th defendant will be arraigned before the tribunal at a later date.

The suspects are alleged members of the Palestine Liberation Front, headed by Mohammed (Abul) Abbas, who masterminded the 1985 hijack of the Italian cruise ship Achille Lauro.

According to the charges filed, the terrorists were participants in an elaborate scheme to attack the Tel Aviv beaches, crowded on the Shavuot holiday, and cause as much bloodshed as possible among civilians.

The 15-count indictment said they also planned to attack the U.S. Embassy near the beachfront and inflict casualties on U.S. personnel.

The terrorists set out on their mission from Libya, which provided manpower and all other assistance. The terrorists' "mother ship" launched six speedboats filled with armed men just outside Israeli territorial waters.

Because of mechanical failures and navigation errors, only two of the boats managed to reach shore, one at Ga'ash, north of Tel Aviv, and the other south, at Nitzanim, between Ashkelon and Ashdod, both well away from their original targets.

They were intercepted by Israeli security forces, who killed four and captured 12 before any damage or casualties were inflicted.

The accused, whose ages range from 20 to 30, trained for their mission in Libya. One of them, Mazen Rashid Hijazi, 29, of Jerusalem, taught the others Hebrew.

Hijazi, who served time in Israeli jails for previous terrorist activities, had been freed in a 1985 prisoner exchange.

The captured leader of the assault was identified as 20-year-old Ahmed Khalil al-Wazir, from a Palestinian refugee camp in Syria.

Abul Abbas said he planned the attack to avenge the killing of seven Palestinian day laborers by a former Israeli soldier near Rishon le-Zion on May 20. But a U.S. State Department

report has said the PLF began preparing for the attack in October 1988.

President Bush announced June 20 that he was suspending the U.S. dialogue with the Palestine Liberation Organization because it failed to denounce the attack by the PLF, a constituent organization.

ISRAEL SHUTS LEBANESE PORT SHIPPING ISRAELI GOODS TO IRAQ By Hugh Orgel

TEL AVIV, Sept. 13 (JTA) -- Israel has shut down the makeshift port at Nakoura in the southern Lebanon security zone because it was being used to ship Israeli goods to Iraq in violation of the U.N.-imposed embargo, sources in Tyre reported Thursday.

Israeli officials refused to comment on the reports.

According to reports attributed to "security sources," Israeli-produced food was being sent through Nakoura to Christian East Beirut, where Lebanese labels were affixed and the food transhipped to Iraq via Syria or Jordan.

Businessmen in Tyre, a port on the southern Lebanon coast, said Lebanese merchants have sent food to Baghdad through several Middle Eastern countries in defiance of the U.N. blockade.

The reports said the closure of Nakoura has dismayed officers of Gen. Antoine Lahad's Israeli-backed South Lebanon Army, who were collecting customs and other fees on incoming goods.

Nakoura, the only port of entry for goods consigned to the SLA and residents of the security zone, was an important source of revenue for Lahad's forces.

SOUTER TELLS SENATE PANEL HE'S SENSITIVE TO MINORITY CONCERNS By David Friedman

WASHINGTON, Sept. 13 (JTA) -- U.S. Supreme Court nominee David Souter told a Senate panel Thursday that he is sensitive about discrimination against minorities, despite his privileged background.

Souter, a judge on the 1st U.S. Court of Appeals in Boston, told the Senate Judiciary Committee that he had learned about discrimination from two of his closest friends, both of whom were attending the opening day of hearings on whether to confirm his appointment.

He said one of those friends was Sen. Warren Rudman (R-N.H.), who had told him about the discrimination he suffered growing up Jewish.

The other was Thomas Rath, a New Hampshire lawyer who had told him that when his grandfather immigrated from Ireland, he found that many jobs in Boston were advertised with the slogan "No Irish need apply."

Souter spent a great deal of the time during the hearing denying claims that he is too provincial to understand the problems of minorities, the poor and others.

He said that as a lawyer, then as a trial judge and finally as an appeals court judge, he had dealt with all kinds of people and problems that exist throughout the United States.

Souter was nominated by President Bush to succeed Justice William Brennan, who resigned from the high court suddenly in July.

The confirmation hearings, which focused Thursday on the judge's views on abortion, are expected to continue into next week.

VATICAN OFFICIAL CALLS FOR CLOSER TIES BETWEEN JEWISH, CATHOLIC COMMUNITIES

By Debra Nussbaum

NEW YORK, Sept. 13 (JTA) -- A high-level Vatican official, echoing statements made at last week's meeting of Catholic and Jewish leaders in Prague, has denounced anti-Semitism as a sin and called for substantive measures to create more understanding between the Jewish and Catholic communities.

Rev. Pier Francesco Fumagalli, secretary of the Vatican's Commission for Religious Relations With the Jews, made his remarks during a two-day conference commemorating the 25th anniversary of "Nostra Aetate."

Issued by the Second Vatican Council in 1965, the declaration called for an improved relationship between the Catholic Church and the Jewish people.

Fumagalli acknowledged that "the Jewish people continue to have a positive role within God's unique design for the universe."

The next steps in the evolution of the relationship between the two faith communities, Fumagalli said, are "to include teaching of these doctrines in theological seminaries, to move to counter anti-Semitism and to educate people with the knowledge of different civilizations, religions and cultures."

The conference, held at Fordham University and sponsored with the cooperation of the American Jewish Committee, convened less than a week after the International Catholic-Jewish Liaison Committee met in Prague.

At the Prague meeting, leaders from the two faiths called for strong initiatives to be taken to combat anti-Semitism in Eastern Europe.

Document Being Prepared

Fumagalli confirmed that a document providing a synthesis of papal history in relationship to the Jews is now being prepared by the Vatican.

He also called for "close cooperation between the International Jewish Committee on Interreligious Consultations and the Vatican Commission for Religious Relations With the Jews, in order to avoid future misunderstandings" like the conflict over the establishment of a convent at Auschwitz.

"We have a sacred duty to create a community of mutual esteem and reciprocal caring," Fumagalli said. "We must promote true conciliation."

Rabbi A. James Rudin, national interreligious affairs director of the American Jewish Committee, noted that with the "explicit mandate" issued by the Vatican through the papal commission and now Fumagalli, "the full weight and authority of the church at the highest level is involved in the battle against anti-Semitism."

At the opening dinner of the Nostra Aetate conference on Tuesday, Nobel laureate Elie Wiesel observed that dramatic breakthroughs have been made in tensions between the church and the Jewish people over the past 25 years.

"We were no longer accused of deicide," he said. "Anti-Semitism was deplored, if not denounced. Dialogue between Catholics and Jews was encouraged. And the Jewish origins of Christianity were emphasized."

The Vatican has not yet officially recognized the State of Israel, a step that the Vatican-Jewish dialogue groups are pressing for, Rudin said.

FRANKFURT JEWS PUSH FOR CHANGE OF BUILDING WHERE GHETTO STOOD

By David Kantor

BONN, Sept. 13 (JTA) -- The cultural department of the city of Frankfurt is trying to get the mayor to order last-minute changes for a new utility-service center, which hides the remains of the old ghetto and Jewish cemetery from public view.

The center, where gas and electricity bills will be issued, is scheduled to open soon on the former ghetto site.

When it was planned in 1987, the Jewish community and many non-Jews objected to the obliteration of the ghetto, a reminder of the Jewish life that flourished in Frankfurt before the Nazi era.

As protests grew, the town authorities promised to preserve the cemetery and integrate remnants of the ghetto into the new complex, including a small museum.

But according to Linda Reisch of the municipality's Cultural Department, the preserved portions are not visible to people visiting the center.

She said architect Ernst Gisela had failed to follow the plan originally agreed upon, and thus, the remains of the ghetto, including a mikvah and the cemetery, are blocked from view.

The windows of a building overlooking them were set too high, Reisch said.

The director of the service center, Jurgen Wann, observed, however, that visitors to the main hall can see the tops of the trees in the cemetery from the windows.

But Reisch reported Wednesday that Jewish community members were appalled when they visited the site and intend to raise the matter with Mayor Volker Hauff.

She has urged the mayor to initiate a competition among architects to correct the problem.

CHINESE TENNIS PLAYERS IN ISRAEL MAY YIELD GREATER NET THAN GAME

By Hugh Orgel

TEL AVIV, Sept. 13 (JTA) -- Israeli officials are hoping that a delegation of tennis players from China will herald a breakthrough in relations with Beijing the way ping-pong did between the United States and China two decades ago.

The first official delegation from the People's Republic of China arrived in Israel this week, consisting of four tennis players.

They will engage members of Israel's national tennis team in the opening round of the World Group qualifying matches for the Davis Cup, which opened at the Ramat Hasharon tennis courts Thursday.

The Chinese had requested a postponement of the matches in Israel on grounds that their best players are presently engaged in the Asian tennis championship tournament.

The World Cup management rejected the request, with the result that China is represented here by virtual unknowns.

They are Liu Xiao Cheng, 21, who is ranked 1,000 on the ATP international computer; Lin Di, 22, who does not even appear on the 1,250-name list; and Zhang Jiaheng and Dai Xiong.

The Israeli team is made up of Amos Mansdorf, currently rated 37th in the world, and Gilad Bloom, 23, rated 66th, who both reached the final 16 of the U.S. Open Championship last week.

**BEHIND THE HEADLINES:
FOR ISRAEL, NEW SEASON AT THE U.N.
FULL OF PROMISE AS WELL AS PITFALLS**
By Allison Kaplan

UNITED NATIONS, Sept. 13 (JTA) -- Though Israel and its supporters have learned that optimism tends not to pay when it comes to the U.N. General Assembly, many say this year's session could contain unprecedented opportunities for diplomatic progress for the Jewish state.

The Arab nations, who are Israel's most formidable U.N. opponents, are arriving at the Sept. 18 opening session of the General Assembly in tremendous disarray, chiefly because of Iraqi President Saddam Hussein's invasion of Kuwait.

The crisis touched the United Nations directly this week with the resignation of Clovis Maksoud, who has served as the Arab League's representative to the world body for 11 years. His resignation followed that of the league's secretary-general, Chedli Klibi.

The Arab disarray is compounded by the fact that the credibility and prestige of the Palestine Liberation Organization have hit an all-time low, thanks to its support and sympathy for Iraq.

"Many countries are now convinced that the PLO is not a partner for any peace. It has shown its hand by supporting the goals of Saddam Hussein," said Johanan Bein, Israel's acting ambassador to the United Nations.

The PLO's reduced prestige is unquestionably helpful to the Israelis. Some of the fiercest diplomatic battles that Israel and the Jewish community have waged at the United Nations have been against efforts to upgrade the status of the PLO delegation to that of a member nation in the General Assembly and other U.N. agencies.

U.S. May Soft-Pedal Repeal Effort

But the new situation is a double-edged sword, and Israeli representatives here are far from relaxed.

Arab efforts to reunify their forces could result in even more anti-Israel rhetoric than usual during the assembly, if their enmity to Israel becomes the only thing they can agree on.

The Israelis are also watching closely to see whether the United States, Israel's traditional defender and ally in the United Nations, will find it necessary to soft-pedal any partnership with Israel.

This would have its most significant impact in the continuing U.S.-Israeli effort to repeal the 1975 General Assembly resolution denigrating Zionism as a form of racism.

Senior State Department officials have indicated that, while the United States remains committed to the resolution's repeal, it may be temporarily put on the back burner, since both Saudi Arabia and Egypt, key players in the alliance against Saddam Hussein, oppose any move to rescind the resolution.

The United States and Israel have worked together over the past year to muster support for repeal of the resolution. The campaign, which was announced last December by Vice President Dan Quayle, has met with a degree of success.

Several nations that voted in favor or abstained when the resolution it was originally adopted have indicated a change of heart, and it appears that Israel could achieve a narrow margin of victory.

"There's been movement especially in the new democracies of Eastern Europe and Latin

America," John Bolton, U.S. assistant secretary of state for international organization affairs, said in a telephone interview. "Our count indicates the vote would be close, but the position of many countries is still unknown."

Before Iraq's invasion of Kuwait, the Israelis and the Americans had been determined, if not to bring the repeal to a vote during this session, to continue to lay the groundwork through intensive lobbying of member nations.

Officially, the decision on whether to move for a vote during this General Assembly session has not yet been made.

Israeli Ambassador Bein said that before the issue would be brought to a vote, Israel would want "a comfortable majority" of U.N. member nations in its camp. "At this time of crisis, it's hard to see if the circumstances will be ripe during this General Assembly," he said.

Overcoming The Routine

Israeli officials have been cautiously optimistic that they will encounter a more positive attitude toward the Jewish state in the corridors of the United Nations this year. There is now widespread recognition, they say, of Israel's need to normalize relations with the Arab states, not just the Palestinians.

But this is expected to have little effect on the routine obstacles Israel must overcome during each General Assembly session.

"The enemy of Israel is the routine. We hope that countries will be brave enough this year to pull themselves out of the routine," said Bein.

The first act of the annual ritual occurs when Israel has its credentials for membership in the United Nations challenged. Each year, Israel's right to continue as a member nation is contested by one of the Arab countries, and one of the Scandinavian nations moves to stymie the vote.

Thomas Pickering, the U.S. ambassador to the United Nations, told a group of American Jewish leaders this week that while there were 95 votes in support of Israel during the credentials challenge last year, he expected at least 100 during this session.

Once the credentials vote is over, Israel is expected to face the usual plethora of anti-Israel resolutions that come up in various committees and constituent bodies of the United Nations.

More 'Crazy Resolutions' Expected

Dr. Harris Schoenberg, director of U.N. affairs for B'nai B'rith International, said he expected "the hostile pattern against Israel to continue."

"Similar problems to the Iraq situation have happened in the past, and they have had little effect," he said. "I think all these crazy resolutions will be adopted again."

An early sign that the anti-Israel efforts have not abated is the fact that a subgroup of the U.N. Human Rights Commission, meeting in Geneva late last month, condemned Israel at length and paid more cursory attention to Iraq's behavior in Kuwait.

Jay Lefkowitz, a member of the U.S. delegation to the Human Rights Commission, said that the vote was a sign that "while a lot has been done in the past two months to rejuvenate the United Nations, most of the improvement has been at the Security Council level and has yet to filter down to any of the specialized agencies, particularly in the human rights arena."