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**ISRAEL DENIES IT IS UNDER DEADLINE
TO RESPOND TO U.S. PEACE PROPOSALS**

By David Landau

JERUSALEM, July 30 (JTA) -- Israel denied Tuesday that it had promised to deliver a positive response to U.S. proposals for a regional peace conference while the summit meeting was under way in Moscow between Presidents George Bush and Mikhail Gorbachev.

Officials here seemed irritated by persistent reports from Moscow that the United States and Soviet Union expected Israel's reply by Tuesday so they could announce at the summit that invitations were being sent out to the peace conference they would co-host.

Israel suspects the reports were initiated by officials of both superpowers as a means of pressuring Israel.

Israeli officials maintained that the time frame "did not come up" during a brief telephone conversation between Prime Minister Yitzhak Shamir and Secretary of State James Baker, who is in Moscow.

The conversation Tuesday focused primarily on Baker's return visit to Jerusalem, expected before the end of the week, Israeli sources said. Shamir said Monday he expects to be "wrapping up" Israel's response with Baker when he gets here.

Israel Radio reported Tuesday night that Shamir and his senior ministers would hold decisive consultations Wednesday night to establish Israel's response. Foreign Minister David Levy is returning from his two-day visit to Cairo to participate.

Israelis reacted coldly meanwhile to indications from Moscow that the Soviet Union will withhold the formal resumption of diplomatic relations with Israel until "progress" is made at the peace conference.

The expectation here had been that full diplomatic relations would be restored as soon as Israel agreed to attend the peace conference or, at the latest, when the conference opened.

**LEVY, IN CAIRO, FAILS TO PRODUCE
ANY PEACE FORMULAS FOR MIDEAST**

By David Landau

JERUSALEM, July 30 (JTA) -- Foreign Minister David Levy's two-day visit to Cairo has apparently not produced Israeli-Egyptian agreement on a formula to advance the Middle East peace process.

Levy described his Monday night meeting with President Hosni Mubarak as "positive" but gave no details.

It appears to have been devoted at least in part to Israel's complaints over the lack of normal trade and cultural relations between the two countries, and the negligible numbers of Egyptian tourists visiting Israel, despite the Egyptian-Israeli peace treaty.

Levy conferred Tuesday with Egyptian Foreign Minister Amre Moussa, extending to him an invitation to visit Israel. The invitation was accepted.

Levy is scheduled to have a final meeting with Mubarak on Wednesday before flying home.

Mubarak has not, so far, extended an invitation to Israeli Prime Minister Yitzhak Shamir to visit Cairo.

Shamir has not had a meeting with Mubarak since becoming prime minister, notwithstanding U.S. pressure on the Egyptian president to end his "boycott" of the Israeli leader.

The Israeli prime minister has been the target of vitriolic comments in the Egyptian press, which loosed a barrage of criticism of Israel coinciding with Levy's visit.

"Two Nations At Peace"

Israel and Egypt, the only Arab country to have signed a peace treaty with Israel, both support U.S. efforts to arrange a regional peace conference. But Israel rejects Egypt's proposal that it freeze settlement-building in the administered territories as a confidence-raising measure during peace talks.

Moussa pointed out that, in fact, Prime Minister Menachem Begin did just that while Israel and Egypt were negotiating their peace treaty in 1979.

The Egyptians are dismayed by Israel's position on the composition of a Palestinian negotiating team, which calls for the exclusion of East Jerusalem residents.

Levy, visibly irritated by reporters' questions on the deadlock over that issue, observed, "We are not facing a situation where Egypt dictates or imposes conditions. We are consulting as two nations at peace."

Moussa said Egypt takes the matter of Palestinian representation "very seriously" and hoped "we can do something to help form a Palestinian delegation."

But the actual selection of delegates is the prerogative of the Palestinians, not Israel's or Egypt's, he cautioned.

At a joint news conference with Moussa, Levy declined to be drawn into an argument over the meaning of U.N. Security Council Resolution 242, which all parties acknowledge must be the basis of peace negotiations.

Harsh, Admonitory Tone

Moussa observed that "the international community" has agreed on an interpretation but what matters is implementation. He was referring to the resolution's requirement that Israel withdraw to secure, recognized borders.

Levy said Israel accepted the resolution but had its own interpretation. He did not elaborate.

The Israeli government has accepted the withdrawal principle of Resolution 242 but maintains that it does not necessarily apply to all fronts.

It could be argued, according to Israel, that the withdrawal from the whole of Sinai, completed in 1982, satisfied the resolution's conditions and that no further territorial withdrawals are required.

Israelis at home were meanwhile disconcerted by the harsh admonitory tone adopted during Levy's visit to Cairo by what many consider to be a government-controlled Egyptian news media.

The sharp Egyptian press criticism of Israel was reported Tuesday in Ma'ariv by its correspondent, Shefi Gabai, who is covering Levy's visit.

The semi-official newspaper Al Ahram accused Shamir of trying to impose "his nonsense" on developments in the Middle East. "Shamir has again brought up old, obsolete points, which have no place in this era of positive Arab positions," the newspaper said in reference to the current U.S. peace initiative in the region.

It suggested that Shamir might willfully bring down his own government to hold "turbulent elections" and "stall the peace process indefinitely."

Al Jumhuriya claimed Israel is trying to foil international efforts to set up a peace conference.

It referred specifically to an announcement by the Israeli Housing Ministry this week that 380 new homes would be built for Jewish settlers on the Golan Heights, territory Israel seized from Syria in 1967 and virtually annexed in 1980 by bringing it within the Israeli legal system.

"We expect more provocations like these from Shamir and his aide Sharon, as long as the yoke of peace continues to tighten around the neck of Tel Aviv," Al Jumhuriya said, referring to Housing Minister Ariel Sharon.

By and large, the newspaper commentary was more moderate on Monday, when it was devoted to Levy's arrival, Gabai reported. Nevertheless, there was plenty of implied criticism of Israel.

Al Ahram, in an editorial, said Egypt had long urged Israel to take practical steps to build mutual confidence with Palestinians and Arabs.

That is only possible if Israel accepts the suggestion of Egyptian President Mubarak to stop building settlements in the occupied territories in exchange for lifting the Arab economic boycott of Israel, Al Ahram said.

Israel has already flatly rejected that offer, made by Saudi Arabia.

The opposition newspaper Al Wafd said Levy's visit only highlights the gap between Israeli and Arab aims. The editorial writer did not believe Israel could respond positively to all Arab demands and predicted a failure of peace efforts unless the United States applies real pressure on Israel.

SOVIET ADVOCACY GROUPS SPLIT ON MOST-FAVORED-NATION STATUS FOR USSR By David Friedman

WASHINGTON, July 30 (JTA) -- The two major U.S. advocacy groups for Soviet Jewry took opposing views Tuesday on President Bush's announcement that he would grant the Soviet Union most-favored-nation trade benefits.

Bush announced at the beginning of his two-day summit with Soviet leader Mikhail Gorbachev that he would send to Congress for its ratification the year-old U.S.-Soviet trade agreement, granting the Soviets the opportunity to export goods to the United States at the lowest possible tariffs.

As expected, the National Conference on Soviet Jewry and the Union of Councils for Soviet Jews differed in their responses.

The National Conference welcomed Bush's announcement, "which, we believe, is appropriate at this time in light of Soviet emigration performance in general and Jewish emigration performance in particular," said Shoshana Cardin, the organization's chairman.

But the Union of Councils for Soviet Jews, which has often expressed apprehension over such a move, registered its disappointment.

Micah Naftalin, Union of Councils' national

director, said the group opposed the president's decision "because we feel that the basic requisites (for MFN) have not been met."

At the same time, Naftalin added, "we are grateful the president has held out as long as he has. We have averted MFN at least two years longer than we had any right to expect."

The National Conference's support was echoed by another American Jewish group, the Anti-Defamation League, which likewise hailed "the substantial and sustained emigration of Soviet Jews."

"We applaud President Bush," the league said in a statement.

Not Far Enough

While the National Conference has been in favor of most-favored-nation status for the Soviet Union in light of the large number of Soviet Jews emigrating to Israel, the Union of Councils has argued that the Soviets have not gone far enough.

Although Bush and Gorbachev signed the trade agreement at their summit in Washington in June 1990, the president held up sending the bill to Congress until the Kremlin adopted a long-promised law codifying the reforms in emigration practices.

The Union of Councils feels that law leaves substantial problems for potential emigres.

The National Conference had announced in December that it would ask Bush to consider a one-year waiver of trade sanctions against the Soviet Union, which were imposed by the Jackson-Vanik Amendment to the U.S. Trade Act of 1974.

The waiver was adopted in the spring, but Bush still delayed submitting the trade bill because of concern about certain Soviet trade practices, including such violations of intellectual property rights as the pirating of book, films, tapes and computer programs.

Cardin of the National Conference said Bush's announcement is consistent with his recommendation June 3 of a one-year waiver of sanctions to allow the Soviets to obtain credits to buy U.S. agricultural products. A similar waiver had been granted last December.

Bureaucratic Obstacles

"The legislation requires that the president, in his waiver recommendation, report to the Congress that his action will 'substantially promote' the objectives of freer emigration and that he has received appropriate assurances that the country's emigration performances will lead to these objectives," Cardin explained.

"These requirements are completely consistent with the aims, objectives, and policies of the NCSJ."

But Naftalin argued that the new Soviet emigration law still does not meet international human rights standards and is not due to go into effect until January 1993.

Naftalin said that there are still long-term refusniks in the Soviet Union and bureaucratic obstacles to emigration.

At the same time, "the Soviets should understand that they are not off the hook," Naftalin added. He said Bush can review Soviet performance next June when the waiver will be up for renewal.

Both the National Conference and the Union of Councils have stressed that they will continue to monitor the situation and continue to press for removal of the remaining obstacles to emigration.

**ISRAEL REJECTS REPORT
BY AMNESTY INTERNATIONAL**
By Gil Sedan

JERUSALEM, July 30 (JTA) -- Israel's Justice Ministry has angrily rejected an Amnesty International report alleging that Israeli authorities "effectively condoned if not encouraged" the physical abuse of Palestinians held in detention.

The ministry's statement, released Tuesday, accused the London-based humanitarian organization of ignoring the fact that Palestinians have a motive to "fabricate" allegations of torture.

It categorically denied Amnesty's charge that an Israeli commission of inquiry into interrogation methods, headed by Judge Moshe Landau, had condoned the use of "moderate physical pressure" on a suspect if a terrorist act might thereby be prevented.

The commission's recommendations, endorsed by the Cabinet in 1987, were widely criticized in Israel at the time for giving the internal security agency known as Shin Bet a green light to inflict "moderate" torture.

The privately-operated Amnesty International concentrates on the problems of political prisoners and so-called prisoners of conscience.

**FLAGS WITH CRESCENTS
ON A ROLL IN ISRAEL**
By Hugh Orgel

TEL AVIV, July 30 (JTA) -- The possibility of a regional peace conference has been a bonanza for Israeli flag makers.

One of the largest, Yitzhak Berman of Jerusalem, has just completed 900 Syrian flags.

Berman says he also has orders for several hundred Jordanian, Saudi Arabian, Egyptian and Israeli flags from the same client, whom he declined to name but is believed to reside in the United States.

Washington is the peace conference venue said to be favored by Israel.

According to Berman, the run on flags is a good sign that peace is on the way.

Berman said if Assad announces tomorrow that he will visit Israel, the Syrian flags will be ready to wave. He recalls he was caught short of Egyptian flags in 1977 when President Anwar Sadat made his historic trip to Jerusalem.

A small boom in Saudi Arabian flags began after the Persian Gulf War, when the Saudi attitude toward Israel became noticeably warmer.

This was reported by Israeli ship and yacht owners, who have taken to raising the Saudi flag as a gesture of respect and good will when passing close to the Saudi coast.

Weissman-Lehman Flags of Tel Aviv has received an order for Saudi flags from the Center for Oceanic Equipment in Eilat. Shimon Namer, the center's director, pointed out that it is an ancient maritime tradition for vessels to fly the flag of the nation they are approaching, as well as their own.

This has led to a few warm encounters at sea. The crews of Saudi navy patrol boats have been very friendly to Israeli yachts or fishing boats that drift into Saudi waters, sailors from Eilat report.

Israeli boats set their courses closer to Saudi waters than Egyptian waters, though Israel is officially at peace with Egypt and technically at war with Saudi Arabia.

**HERZOG SILENT IN FACE OF ATTACK
BY LITHUANIAN ROSH YESHIVA**
By Hugh Orgel

TEL AVIV, July 30 (JTA) -- President Chaim Herzog declined to react Tuesday to a rabbi who accused him of besmirching Jewish values.

"The president does not respond to personal attacks," was the terse statement issued by the President's Office in Jerusalem after Rabbi Eliezer Schach of Bnei Brak denounced Israel's chief of state for defending "pig-eating" kibbutzniks.

Schach, who hails from Lithuania, is spiritual mentor of the Degel HaTorah party and an influential authority in the larger, predominantly Sephardic Shas party. Both belong to the haredi bloc, the right-wing Orthodox parties that provide Prime Minister Yitzhak Shamir's Likud-led government with its comfortable margin in the Knesset.

Schach's quarrel with the president arose after Herzog spoke in defense of the kibbutz movement. He did so earlier this year after the Bnei Brak rabbi publicly accused "pig-eating and pig-breeding" kibbutzniks of leading pious Oriental Jews away from traditional Judaism.

Herzog spoke out again last month after Absorption Minister Yitzhak Peretz objected to housing Ethiopian olim at kibbutzim because they would be taught to abandon traditional values.

How was it possible for the president, "the son of a great rabbi, to praise the people of the kibbutzim who exalt the pig, and even pay them compliments?" Schach asked rhetorically.

The Irish-born Herzog is the son of the late Rabbi Yitzhak Herzog, Israel's first Ashkenazic chief rabbi and former chief rabbi of Britain and Ireland.

THREE SLA SOLDIERS KILLED
By Gil Sedan

JERUSALEM, July 30 (JTA) -- Three soldiers of the Israel-backed South Lebanon Army were killed Monday when a remote-controlled explosive charge detonated in their midst in the southern Lebanon security zone.

Two soldiers and a Lebanese civilian were injured by the blast, for which the mainstream Shi'ite militia, Amal has claimed credit.

But Israeli military sources are convinced the extremist Shi'ite fundamentalist Hezbollah was responsible.

Gen. Yitzhak Mordechai, the Israel Defense Force commander for the northern region, said Monday that the pro-Iranian Hezbollah has become the most serious challenge to security in the region.

The attack was the deadliest in recent weeks against the SLA, a largely Lebanese Christian militia trained, equipped and financed by Israel.

The SLA retaliated with a four-hour artillery barrage, lobbing 55 mm. shells at Shi'ite villages in southern Lebanon. At least five villagers were killed and 11 wounded.

TEDDY KOLLEK UNDERGOES SURGERY
By Gil Sedan

JERUSALEM, July 30 (JTA) -- Jerusalem Mayor Teddy Kollek underwent surgery Tuesday for the removal of intestinal polyps which could turn cancerous.

Following a three-hour operation, doctors at Hadassah Medical Center in Ein Kerem said no cancer cells had been detected.

PROPOSED SAUDI ARMS SALE FACES LITTLE OPPOSITION

By Howard Rosenberg

WASHINGTON, July 30 (JTA) -- Congress is not expected to oppose a proposed \$365 million arms sale to Saudi Arabia.

President Bush formally notified Congress on Monday that the package includes 2,000 MK-84 bombs, 2,100 cluster bombs, 770 Sparrow air-to-air missiles and laser-guided bomb components.

A pro-Israel lobbyist said the package consists of "small dollar" items -- "most of it not very threatening or new or different than what's been put in the region before."

Sparrow technology is "not special" while MK-84s are "old iron bombs," the lobbyist added.

But the cluster bombs are considered more powerful than the others. They contain a number of smaller bombs that are scattered over a wide area, resulting in a dramatically expanded range.

Another feature of the cluster bomb is that when deployed, some of its smaller bombs don't necessarily explode. As a result, "little kids pick them up and blow their arms off," the lobbyist explained. "It's kind of an unpleasant reaction."

Of greater concern to pro-Israel activists here than the current package is a future proposed sale worth more than \$10 billion.

That package was initially expected to be proposed this fall, but pro-Israel lobbyists now expect it to be delayed until early 1992. The delay is due to the fact that the threat to Saudi Arabia from Iraq has declined, said one lobbyist, who added, "The Saudis have real money problems right now. They can't afford a major sale."

BEHIND THE HEADLINES:

UPS AND DOWNS OF REFUGEE ARRIVALS HAVE PUT FINANCIAL STRAIN ON HIAS

[Part 2 Of A Series]

By Aliza Marcus

NEW YORK, July 25 (JTA) -- For the U.S. Jewish community, the benefit of helping Soviet Jews reach freedom has always far outweighed the cost of bringing them to the United States.

So two years ago, when the U.S. government asked organized Jewry to accept full financial responsibility for 8,000 of the 40,000 Soviet Jewish refugees it would allow to enter the country in fiscal year 1990, the Jewish community happily agreed.

For the Hebrew Immigrant Aid Society, which was responsible for transporting refugees and coordinating their placement here, this meant an outlay of \$3.7 million to cover the initial costs of the "unfunded" refugees, as they are called.

The agency would eventually be reimbursed for coordinating the transportation and placement of the 32,000 government-funded refugees. But it wound up with a \$3.5 million deficit from assisting the 8,000 others.

HIAS was counting on reducing the deficit with the help of future government grants covering the next two years' expected immigrants.

But this year, much fewer Soviet Jews are coming than predicted. With just over two months left in the 1991 fiscal year, fewer than half of the 40,000 slots set aside for Soviet Jews have been filled, and the projected annual total is between 26,000 and 30,000 refugees.

This means that HIAS, which started the year with the staffing and budget needed to assist the maximum number of expected refugees, has no

immediate prospect of closing its budget gap.

"Our costs this year don't vary one-for-one with arrivals, but our revenue from the federal government varies one-for-one with arrivals, which is what produced the problem," said Karl Zukerman, the agency's outgoing executive vice president.

A Solution Could Be Difficult

HIAS is not alone in this dilemma. Many Jewish federations across the country that had hired staff and enlarged programs to resettle their share of refugees now find themselves scrambling to balance budgets.

But a solution could be more difficult for HIAS, whose refugee processing costs are almost fully funded by the U.S. government.

This fiscal year, HIAS budgeted \$12.4 million for refugee costs and expected to receive 70 percent of that amount from government grants, according to HIAS officials. HIAS also receives yearly allocations from local federations, totaling about \$2.6 million, and smaller amounts of revenue from various other sources.

"Assuming a flow of about 40,000 funded refugees in each year of 1991-1992, this would produce enough of an operating surplus so that we could repay the deficit over two years," explained Zukerman.

Instead, the unexpected slowdown in refugee arrivals has forced HIAS to re-evaluate its situation.

Like most Jewish agencies that deal with refugees, HIAS is hoping that the numbers will pick up by the year's end -- both for financial and humanitarian reasons.

HIAS officials also hope that the U.S. government will allow any unused slots to be transferred to the 1992 fiscal year, along with the government funding that accompanies them.

"Now the question comes, will there be enough of an increase in numbers, in addition to the expected 40,000, to make up the difference?" asked Zukerman.

'Very Poor Grades'

He said HIAS has already taken steps to reduce costs, including leaving vacant positions empty, and the agency is "looking at the next year for further reductions" if necessary.

But the ebb and flow of refugees has had more than just a financial effect on HIAS -- the agency has come under bitter criticism for its handling of information on the refugees.

After an independent report found that relations between HIAS and other Jewish social service agencies had deteriorated over the resettlement issue, Zukerman resigned.

"The agency got very poor grades," said Alan Molod, a HIAS vice president and chairman of the review committee.

"In my opinion, the agency was consumed with fulfilling its mission of saving lives and put that above maintaining relationships," explained Molod, a Philadelphia lawyer.

Much of the criticism against HIAS focused on the problems federations had in receiving accurate and timely numbers of arriving refugees.

But Ben Zion Leuchter, president of HIAS, called this a case of "killing the messenger."

HIAS always provided information as quickly as it received it, and when the information was not forthcoming, it was usually Moscow that was to blame, explained Leuchter.

"My God, we're not in the Kremlin," he said.