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**BUSH AND GORBACHEV ANNOUNCE
OCTOBER MIDEAST PEACE CONFERENCE**

By David Friedman

WASHINGTON, July 31 (JTA) -- President Bush and Soviet President Mikhail Gorbachev plan to invite Israel, the Arab states and Palestinians to a peace conference in October to "launch bilateral and multilateral negotiations."

In making the announcement in Moscow on Wednesday, Bush said that Secretary of State James Baker would go to Israel on Thursday "to obtain Israel's answers" on whether it would attend such a conference.

Bush announced plans to hold the conference, which will convene at a still-to-be-named site, during a joint press conference with Gorbachev ending their two-day summit meeting. He said invitations to attend the conference will be issued 10 days prior to its start.

Asked directly if he believes Israel will agree to attend a conference, Bush replied, "I am a little more optimistic today, but if I had the answer in my pocket I suspect we would say so."

While Israel appears to be leaning toward acceptance, the government of Prime Minister Yitzhak Shamir is adamant that the Palestinian delegation to the conference not include members of the Palestine Liberation Organization or any resident of East Jerusalem.

But the Palestinians have also not yet agreed to attend the conference and are demanding that a representative from East Jerusalem be in their delegation, which is expected to be a joint delegation with Jordan.

While Bush mentioned only Israel as having yet agreed to attend the conference, it is expected that Baker will also try to meet with Palestinians while in Israel.

Although Israel has indicated approval of the Soviet Union as a co-sponsor of the conference, Jerusalem has made it clear that it would like Moscow first to resume the diplomatic relations the Kremlin broke during the 1967 Six-Day War.

The Associated Press quoted Soviet Foreign Minister Alexander Bessmertnykh as saying he would make his own trip to Israel later carrying the documents to establish full diplomatic relations with Jerusalem.

The Soviets have said they would resume such relations once Israel has agreed to attend a peace conference.

There had been some speculation that Bush and Gorbachev would issue invitations for the conference during their summit. Administration officials had expressed the hope that Israel would announce its acceptance of the conference before the summit began.

But when this did not occur, Bush and Gorbachev apparently decided to announce plans for an October summit without any specific date.

Both Bush and Gorbachev stressed the importance of moving now to obtain peace in the Middle East.

Gorbachev said that the Middle East "is at a decisive stage" and there is a "window of opportunity to really achieve progress."

Bush said that he and Gorbachev "share the strong conviction that this historic opportunity must not be lost."

"While recognizing that peace cannot be imposed, it could only result from direct negotiations between the parties, the United States and the Soviet Union pledge to do their utmost to promote and sustain the peacemaking process," Bush said. He said this is why the United States and the Soviet Union, "acting as cosponsors," are working to launch a conference.

Bush's mention of "multilateral" negotiations may raise some eyebrows in Jerusalem.

Israeli officials have stressed that they have been assured by Baker that the conference would only be a ceremonial opening, which would be followed immediately by direct negotiations between Israel and Syria, Israel and Lebanon and Israel and the Jordanian-Palestinian delegation.

The Syrians, on the other hand, want the conference to be ongoing.

Syrian President Hafez Assad said in an interview with the Washington Post and Newsweek that while Syria will negotiate with Israel on the Golan Heights, the final settlement must be comprehensive and not an Israeli settlement with only one party, such as the Camp David agreements with Egypt.

**ISRAEL PREPARED TO DISCUSS
TERRITORIAL COMPROMISE ON GOLAN**

By David Landau

JERUSALEM, July 31 (JTA) -- While Prime Minister Yitzhak Shamir publicly maintained his uncompromising stand against territorial concessions in the Golan Heights or anywhere else, a senior government official hinted strongly Wednesday that Israel would be flexible if and when peace talks with Syria take place.

The official, who spoke to the Jewish Telegraphic Agency on condition of anonymity, drew a distinction between Israel's annexation of the Golan Heights in 1980 and its annexation of East Jerusalem in 1967.

The annexation of the Golan was "of a lesser legal degree" than the annexation of East Jerusalem, he said.

That observation seemed to suggest that Israel would be willing to negotiate with Syria about the Golan, despite protests to the contrary by Shamir.

The prime minister, meanwhile, in a speech Tuesday night, insisted that "Eretz Yisrael from the Golan to Eilat, including Judea, Samaria and Gaza," is the inalienable homeland of the Jews.

The official pointed out that Shamir's use of the phrase "from the Golan" did not rule out a pullback from the present lines, which would not sacrifice Israel's presence or control on the strategic heights.

The Golan was seized by Israel in the 1967 Six-Day War. It was annexed de facto in December 1981 by extending Israeli law there.

The official noted that Israel and Syria were likely to seek agreement on Lebanon, as well.

Israel regards the Lebanese government in Beirut to be a virtual protectorate of Syria under the Brotherhood Agreement signed in May by President Elias Hwari of Lebanon and Syrian President Hafez Assad.

The recent bloody clashes between the Lebanese army, operating under Syrian protection,

and elements of the Palestine Liberation Organization in southern Lebanon were "in part a show," the official claimed.

He noted, for example, that much of the PLO's heavy weaponry was not confiscated when it was forced to leave its positions in the port cities of Sidon and Tyre and retreat to the Palestinian refugee camps inland.

Nevertheless, the PLO no longer operates with impunity in southern Lebanon. Its activities hereafter will be tightly controlled by Syria through its Lebanese surrogate, the official said.

But no attempt has been made to disarm Hezbollah, the Moslem fundamentalist militia that operates against Israel, or the Israel-allied South Lebanon Army, the official noted.

He suggested that was because the Syrians do not want to further aggravate Iran, the principal supporter of Hezbollah. The Teheran government has already denounced Syria's willingness to enter into direct negotiations with Israel.

The most serious obstacle to peace talks seems to be the nature of Palestinian representation. Israel, apparently with U.S. backing, refuses to meet with a Palestinian delegation that includes a resident of East Jerusalem.

The official revealed that intense discussions are now going on over how the Palestinians will be designated at the peace table.

Israel will not accept a nameplate reading "Palestine" or "Jordan-Palestine." Israel would also balk at any display of the PLO colors.

The official charged that Syria was in effect imposing a precondition on the talks by insisting that the Palestinians participate. His implication was that Israel would be pleased to negotiate with Syria alone, though he admitted that was not a likely prospect.

RIGHT-WING REVOLT ROCKS COALITION

By David Landau

JERUSALEM, July 31 (JTA) -- The right wing of Prime Minister Yitzhak Shamir's coalition government erupted with anger Wednesday over the announcement in Moscow that the United States and Soviet Union plan to convene a Middle East peace conference in October.

Bush said he was sending Secretary of State James Baker to Jerusalem directly from Moscow to try to persuade Shamir to give Israel's official assent to peace talks.

"Chutzpah," declared Geula Cohen, a Knesset member of the far-right Tehiya party. The superpowers had no right to announce a peace conference "before receiving a formal reply from Israel," Cohen said.

Tehiya's leader, Minister of Science and Energy Yuval Ne'eman, said his party would leave Shamir's government before any conference began. But Ne'eman left open the "tactical" question of just when to quit, which will probably be the subject of discussions at party forums.

Tehiya hopes it can influence Shamir "not to go to a conference that would be disastrous for Israel," Ne'eman said.

He was sharply critical of Bush's "treatment of Israel," which he said reflected a sense that Israel was "wimpish" in face of U.S. political muscle.

Minister-Without-Portfolio Rehavam Ze'evi, whose Moledet party is to the right even of Tehiya, seemed less agitated by the Moscow announcement. The pre-conference negotiations

are far from over, he said, and it is entirely unclear that there will in fact be a conference.

"Let them have the conference; Israel has not decided whether to attend," Ze'evi said. He hinted, however, at vigorous rear-guard action by the right-wing bloc in the Cabinet if and when Shamir seeks approval to join a conference.

The rumblings of revolt on the far right immediately raised speculation that Shamir might seek to set up a new unity government with the Labor Party. Alternatively, pundits said, he could dissolve the government and call early election.

LEVY PROJECTS UPBEAT MOOD ON RETURN FROM EGYPTIAN VISIT

By Gil Sedan

JERUSALEM, July 31 (JTA) -- Foreign Minister David Levy returned Wednesday from his two-day visit to Cairo expressing confidence that Israel and Egypt share a "common concern for the promotion of the peace process."

He described as "good and friendly" the one-hour meeting he held with President Hosni Mubarak prior to his departure. Levy also met with Mubarak on Monday evening, shortly after arriving in the Egyptian capital.

Neither of those encounters produced an invitation to Prime Minister Yitzhak Shamir to visit Egypt, a continuing diplomatic slight contributing to already sour Israeli-Egyptian relations, the only diplomatic ties that exist between an Arab country and the Jewish state.

In fact, the Egyptian press, which many Israelis consider government-controlled, escalated its personal attacks on Shamir during Levy's visit.

But the Israeli foreign minister projected an upbeat mood to reporters at Ben-Gurion Airport. He emphasized the positive aspects of his talks with Egyptian Foreign Minister Amr Moussa.

Conceding differences between the two countries in their approach to the regional peace conference the United States and Soviet Union are intent on arranging, Levy said he found neither pressure nor conditions in Cairo.

It was a meeting between the representatives of two countries that consider themselves responsible for peace in the region, he said. Levy described the 1979 Israeli-Egyptian peace treaty as a "strong milestone" on the way to comprehensive peace in the region.

He thanked Mubarak for his warm welcome, "as well as the advice he gave."

Moussa, speaking at the time of Levy's departure, said their talks were intended to remove obstacles to peace, and he hoped they would bear fruit.

Meanwhile, the important Egyptian daily Al Ahram on Wednesday described Shamir as "a man who opposes peace and deals more with illusion than reality."

The newspaper claimed that Shamir's personality had become the major obstacle to peace.

Another influential Cairo daily, Al Akhbar, said that Israel would have to pay the price of "territory for peace" to prove it is sincere in its desire for peace with its neighbors.

So far, Israel has not given such proof, the newspaper said.

CORRECTION

The July 29 and July 30 JTA Daily News Bulletins carried incorrect issue numbers. Yesterday's and today's editions are correctly numbered.

**DEMJANJUK COUNSEL SAYS PROSECUTION
WITHHELD EVIDENCE, CALLS FOR RELEASE**
By Hugh Orgel

TEL AVIV, July 31 (JTA) -- John Demjanjuk's attorney appealed to the High Court of Justice on Tuesday for the immediate release of the former Treblinka death camp guard, on the grounds that the prosecution withheld exculpatory evidence from the defense.

The Ukrainian-born Demjanjuk was convicted in 1988 of crimes against humanity and crimes against Jews. He was sentenced to death after a protracted trial in special session of the Jerusalem District Court.

His Israeli defense lawyer, Yoram Sheftel, claimed in his appeal that the undisclosed testimony proves his client's "absolute innocence." He said he uncovered it on a recent trip to the Soviet Union.

According to the verdict, Demjanjuk, a longtime resident of Cleveland, was the brutal Treblinka guard known by inmates as "Ivan the Terrible," who herded Jews into gas chambers which he helped operate during 1942 and 1943.

The High Court, which is still considering his appeal of the death sentence, was urged by Sheftel to acquit Demjanjuk, release him immediately and extend an apology.

The lawyer said that in the Soviet Union he found statements, taken between the mid-1940s and 1961 from about 40 Ukrainians who were guards at Treblinka, that uphold Demjanjuk's claim of mistaken identity.

According to Sheftel, the Israeli prosecution knew of this evidence but failed to present it to the court or divulge its existence to the defense.

Sheftel claims the testimony identifies another Treblinka guard, Ivan Marchenko, as "Ivan the Terrible."

He made the same claim during the trial. The prosecution countered by claiming Marchenko was the maiden name of the defendant's mother, which he sometimes used as his own.

The 65-year-old Demjanjuk immigrated to the United States in 1952 and obtained U.S. citizenship in 1958.

In 1981 he was accused of having lied about his wartime activities to gain entry to the United States, and a U.S. District Court ordered him stripped of citizenship.

Demjanjuk was arrested by federal marshals in November 1983. In April 1985, a federal judge granted Israel's request for extradition, and he was deported to Israel on Feb. 27, 1986.

He was indicted in Jerusalem in September of that year and his trial opened on Nov. 26, 1986.

Sheftel, who took over Demjanjuk's defense after the family dismissed his American lawyer, was partially blinded when a distraught Holocaust survivor hurled acid into his face for defending the suspected war criminal.

**KNIFING IN HEBRON HIGHLIGHTS
INCREASING VIOLENCE IN TERRITORIES**
By Gil Sedan

JERUSALEM, July 31 (JTA) -- Israel Defense Force Chief of Staff Ehud Barak, in a meeting with settlers Tuesday at Ariel in the West Bank, said that the army was aware of -- and was making a serious effort to apprehend -- bands of armed Arabs operating in the administered territories.

He also said the IDF was devising methods to cope with the increased use of firearms by intifada activists.

On Tuesday, a Jewish resident of Hebron was knifed and mildly wounded by two Arab assailants.

Maj. Gen. Danny Yatom, commander of the central region, which includes the West Bank, met with local Jewish residents shortly after the incident. He warned them to refrain from revenge attacks and to let the army do its job of protecting security.

After the stabbing, a Jewish-owned car was set on fire and there were several stone-throwing incidents.

A curfew has been clamped on the city, which has frequently been the scene of clashes between Arabs and Jews.

The meeting was held at the home of Rabbi Moshe Levinger, one of the militant leaders of the local Jewish community.

Levinger once served a brief prison term in connection with the killing of an Arab merchant in the Hebron marketplace.

Meanwhile, internecine murder continues.

Arab assailants broke into Shifta Hospital in Gaza on Tuesday, where they shot and killed a 33-year-old Arab who was being treated for chest wounds inflicted by masked Palestinian gunmen Saturday.

The victim was suspected of collaboration with the Israeli authorities.

The incident was the second within a month in which armed men penetrated a government hospital to complete an unfinished execution.

**BOMB SCARE FORCES EL AL
TO MAKE EMERGENCY LANDING**
By Hugh Orgel

TEL AVIV, July 31 (JTA) -- A bomb scare forced an El Al plane with 224 passengers aboard to make an emergency landing in Istanbul, Turkey, on Tuesday.

The captain of Flight 377, bound from Tel Aviv to Copenhagen, made the decision to land in consultation with El Al headquarters in Tel Aviv, after a passenger confessed to a flight attendant that she had not told the truth about the contents of her luggage.

El Al passengers are subjected to the most stringent security checks of any airline. They are asked by security personnel, among other things, whether they packed their own luggage and whether it was left unattended.

The passenger, described as a 20-year-old Swedish national returning from a Variety International convention in Israel, told the El Al steward she had failed to mention that she carried "a gift from an Arab acquaintance" in her baggage.

The woman said she grew increasingly uneasy over the subterfuge and about an hour into the five-hour flight decided to confess.

The El Al plane was met by Turkish security personnel at Istanbul and the woman and her baggage were taken from the plane. The plane resumed its flight after about an hour's delay.

An inspection of the woman's luggage yielded nothing of a suspicious nature, but the passenger, whose name was withheld, was detained by airport authorities for questioning.

She reportedly continued her journey Wednesday on a Scandinavian Airlines jet. An El Al spokesman said the airline was considering taking legal action against the passenger.

**BEHIND THE HEADLINES:
ISRAELIS, PALESTINIANS SHARE INTEREST
IN TERRITORIES' ECONOMIC DEVELOPMENT**
By Gil Sedan

JERUSALEM, July 31 (JTA) -- Although their motives differ, Israelis and Palestinians share a common interest in the economic development of the administered territories.

The need for an all-out effort to shore up the collapsing economic infrastructure is acknowledged both by hawks and doves in Israel and by Palestinian moderates and militants.

All realize that a lot of money will be needed. The nearly \$80 million in start-up funds promised by the Brussels-based European Community for development projects in the West Bank and Gaza Strip is just a drop in the bucket.

More outside investment must be attracted. But the main burden will rest with Israelis and Palestinians.

The Israelis have sufficient reason to act. They are threatened by increasing unemployment while trying to absorb over a million Soviet Jewish immigrants in the next few years.

Arab terrorist attacks inside Israel are increasing.

Under those circumstances, the fewer Palestinians there are seeking work in Israel proper, the better. But to keep them close to home, jobs must be created in the territories.

The creation of one job in the territories is estimated to require an investment of \$20,000, compared to \$50,000 per job in Israel proper.

Creating jobs at home for the 90,000 Palestinians currently working in Israel would cost \$1.8 billion, an amount Israel has no intention of spending on the territories.

But some Palestinians seem willing to share the burden.

They understand that, political obstacles aside, an independent Palestinian state can never be achieved without the economic development of the territories.

"As long as we are so dependent on Israel economically, there will be no political independence," said Mohammed Jazji, owner of a 7-Up bottling plant in Gaza and chairman of the local manufacturers association.

But there are immediate, pressing problems.

The Persian Gulf War plunged Palestinians into a depression. One of the main channels of fund transfers into the territories was cut off when hundreds of thousands of Palestinians employed in the Gulf emirates lost their jobs and could no longer support their families living under Israeli rule.

A Long, Humiliating Process

At the same time, the citrus export business, mainstay of Palestinian enterprise in the Gaza Strip, fell on hard times with the collapse of worldwide citrus prices.

In addition, since the Gulf war Israel has, for security reasons, adopted severe measures intended to limit the number of Palestinians entering Israel on a daily basis.

Those with jobs in Israel have to obtain special entry permits, a long, humiliating process.

That situation, along with the growing reluctance of security-conscious Israeli employers to hire Arabs from the territories, has reduced the number of Palestinian day laborers in Israel from 120,000 to 90,000.

The new economic policy in the territories concentrates for the time being on the Gaza Strip, where conditions are worst.

The Israeli civil administration is developing two industrial parks in Gaza to attract manufacturing plants.

The administration recently handed out grants to build greenhouses to grow flowers for export. It is the first such enterprise in the territories.

At the same time, the approval of new plants and foreign investment is being expedited without restrictions, except for a ban on money originating with the Palestine Liberation Organization.

New plants will get a three-year tax exemption, beginning the first day they start earning profits.

The Israeli authorities plan to introduce income tax reforms similar to those prevailing in Israel. The marginal tax rate will be cut from 55 percent to 48 percent.

These new measures have been welcomed by the Palestinians. But they are no less aware than the Israelis that they do not amount to much more than a declaration of good intent.

They will hardly solve most problems, and the situation will not change radically in the near future.

"We'll need tremendous international aid to create our own economy," said Gaza businessman Mansur a-Shawa, son of the late mayor of Gaza, Rashid a-Shawa.

"Just as Israel relied heavily on international aid to get on its feet," so will the Palestinians, he said.

A-Shawa warned that "an immediate, one-sided Israeli withdrawal from the Gaza Strip would amount to an economic disaster for the local population.

"Such a process needs much time and much money."

**ISRAEL'S POLITICAL WINDS
ARE BLOWING TO THE RIGHT**
By Hugh Orgel

TEL AVIV, July 31 (JTA) -- A new poll shows increased polarization in Israeli politics, with most of the benefit accruing to the far right of the political spectrum.

The survey was conducted by PORI, the Public Opinion Research Institute of Israel, among a representative sampling of 1,200 voters throughout the country.

It showed that if elections were held now, the three small parties on the far right would make significant gains at the expense of Likud. The three small leftist parties would gain modestly at the expense of Labor.

On the right, the Tehiya, Tsomet and Moleket parties, which presently represent 10.9 percent of the electorate, would increase their collective strength by 4 percent in new elections.

On the left, the Citizens Rights Movement, Center-Shinui and Mapam would grow from their present 14.6 percent share to 15.1 percent.

The Likud would lose 2 percent, dropping in voter support from 31.1 to 29.1 percent. The Labor Party would slip back by 2.7 percent, from its current 30 percent to 27.3 percent, the poll showed.

The four religious parties would gain a half of 1 percent, increasing their share of the popular vote from 14.6 to 15.1 percent.