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DERI RESIGNS POST, THROWING COALITION INTO DISARRAY AS VOTE ON PEACE NEARS By Cynthia Mann

JERUSALEM, Sept. 8 (JTA) -- The Rabin government was thrown into disarray this week when Shas party leader and Interior Minister Arych Deri submitted his resignation Wednesday.

The move could topple the government or at least jeopardize Prime Minister Yitzhak Rabin's chances of obtaining Knesset approval of a proposed peace accord with the Palestinians.

Deri's resignation followed a ruling by the High Court of Justice that he and Deputy Religious Affairs Minister Raphael Pinhasi, also of Shas, should be suspended from their posts.

Under Israeli law, the resignation cannot take effect until next week.

Both Deri and Pinhasi face charges, in separate cases, of corruption and misuse of funds. Rabin had been under pressure to remove them from office by Attorney General Yosef Harish and by a citizens group that had brought a petition to the High Court.

The fervently Orthodox Sephardic Shas party scheduled a meeting Thursday to decide whether to remain in the coalition following Wednesday's events and whether its six Knesset members should support the Palestinian autonomy agreement.

Party officials have threatened to secede from the coalition in the event that Deri or Pinhasi were forced from office.

If Shas quits, the coalition would be left with a governing plurality of 56 Knesset members - out of a total of 120 -- from the Labor Party and Meretz bloc.

Such vulnerability could not have come at a worse time, and Rabin admitted as much at a news conference Wednesday.

'No Doubt This Could Harm' Chance For Peace

"Minister Deri, whom I asked to meet me today, came and submitted his resignation," said Rabin. "There is no doubt this could harm the chance for peace."

Unless Labor can persuade additional parties to join the government, it will be forced to rely on the support of the five Knesset members belonging to the two Arab parties, Hadash and the Arab Democratic Party, in the crucial vote on the agreement for Palestinian self-rule. Such a vote was scheduled for Thursday.

The agreement, which was approved last week by Israel's Cabinet, calls for Palestinian self-rule in the Gaza Strip and Jericho as a preliminary step toward extending Arab authority throughout the territories.

Until now, no Israeli government has relied on the Arab parties to stay in power. This situation would be particularly awkward at a time when Rabin seeks a broad mandate to make a controversia beace with the Palestinians.

The government's mandate and legitimacy are already under severe attack by opponents of the peace accord.

Observers expected this week that Shas would not leave the government because it has too much to lose -- namely power, prestige and access to government funding.

But, according to Israel Radio, Shas Knesset Member Arych Gamliel said the court ruling reinforces his belief that Shas should withdraw from the coalition.

The final decision rests with the party's spiritual leader, Rabbi Ovadia Yosef, and the party's Council of Torah Sages.

Despite pressure from his own advisers, Rabin had refused until now to dismiss Deri and Pinhasi. He argued that he had no legal obligation to fire them, saying he was bound to honor an agreement he made with Deri not to dismiss him before an indictment was served in court.

But it also has been apparent that Rabin has feared that the recent dramatic breakthroughs in the peace negotiations with the Palestine Liberation Organization could be jeopardized by the Shas officials' departures.

The government has in the meantime been courting support for the peace plan among Knesset members of Agudat Yisrael in the event Shas withdraws its support.

Agudah's Council of Torah Sages was meeting Wednesday to decide what stance to adopt and even whether to join the coalition government.

Agudah's spiritual leader, Rabbi Eliezer Schach, has been adamantly opposed to joining the present governing coalition because it includes the fervently secular Meretz party.

The current crisis, though, could justify a radical reshuffling of the Cabinet, which would enable Schach to give his support.

Alternatively, three of the four Agudah Knesset members give Schach only nominal loyalty, and could conceivably enter the government on their own.

With even three Agudah members on board, the government's Jewish representatives would outnumber the opposition by 59 to 56.

Environment Minister Yossi Sarid, a member of the Meretz bloc, said he believes it would be a serious mistake for Shas to pull out of the coalition at the moment the government's peace efforts are about to yield fruit.

And Uri Dromi, head of the Government Press Office, told Israel Radio, "I can only hope that at this crucial moment when we are facing such a great decision, the top priority on the agenda today, which is peace, will prevail."

SECRET TALKS CONTINUE TO IRON OUT ISRAELI-PLO MUTUAL RECOGNITION PACT By Gil Sedan

JERUSALEM, Sept. 8 (JTA) -- Israel and the Palestine Liberation Organization continued this week to search for the right language that would clear the way for a mutual recognition pact.

Secret negotiations were reported under way in Paris this week involving the same top officials from Norway, Israel and the PLO who together worked out the tentative accord on limited Palestinian self-rule in the territories.

Among those present in Paris were the Norwegian Foreign Minister Johan Jorgen Holst; Uri Savir, director general of Israel's Foreign Ministry, and his legal adviser, Yoel Zinger; and Ahmad Khoury, better known as Abu Alaa, chief of the PLO's finance department.

Alaa had met with Israeli Foreign Minister

Shimon Peres on Aug. 19 to conclude the self-rule

Israeli and PLO officials still expressed the hope Wednesday that a mutual recognition pact could be concluded by Sunday. This would clear the way for a formal signing of the self-rule accord in Washington on Monday.

Meanwhile, PLO Chairman Yasir Arafat was reportedly encountering some difficulty in getting backing for the plan from the Executive Commit-

tee of the PLO.

After visiting Syria, Egypt and Oman earlier in the week and lining up at least qualified support for the self-rule agreement from those countries' leaders, Arafat returned to PLO head-quarters in Tunis on Wednesday to meet with the 18-member Executive Committee.

The proposed agreement calls for Palestinian self-rule in Gaza and Jericho as a prelude to the establishment of Palestinian authority throughout

the territories.

According to reports from Tunis, the PLO's Executive Committee was balking at approving the self-rule agreement until a mutual recognition pact was reached. It was expected, however, that the committee would eventually support the self-rule agreement.

Meanwhile, 189 Palestinians who were deported to Lebanon last year were preparing to return

to Israel on Thursday.

Last December, Israel deported 415 Palestinians who were charged with being members of the Islamic fundamentalist Hamas movement. The expulsions followed a series of murderous attacks by Muslim extremists within Israel.

According to a plan worked out by Israel in mid-August, the group of 189 detainees were to return this week, with the balance to return by the end of the year. Nineteen of the original group were returned to Israel earlier this year because of illness or because Israeli authorities admitted they had been expelled in error.

Scores of buses were to be used to transfer the deportees Thursday from southern Lebanon to the prison facilities in which they were held before their deportation.

Deportees Will Join Opposition To Peace

Upon their return to their original prison facilities, the returnees will be questioned by Israeli security officials.

Those who were under arrest before their deportation will return to jail. Deportees who are not under suspicion of participating in terrorist acts will be allowed to return to their homes.

According to some observers, the deportees allowed to return home may well add their voices to those Palestinian militants already protesting the latest peace initiatives. Most of the deportees are members of the extremist Hamas movement, which opposes peace with Israel.

Some 50,000 Israelis meanwhile continued their protest against the agreement for Palestinian self-rule.

The massive demonstration, which began Tuesday night when the protesters assembled outside the Prime Minister's Office, continued through Wednesday.

Tens of thousands arrived on the scene Tuesday, following a carefully planned busing operation that brought opponents of the government from all over the country.

Despite warnings by the Education Ministry, organizers of the demonstration stopped the operation of schools in the settlements to allow

elementary and high-school students to attend the demonstration.

At times, demonstrators clashed with police when they refused to evacuate the street adjacent to Rabin's office and paralyzed the traffic in the area.

Police used water cannons and clubs Wednesday morning to disperse those who remained in front of Rabin's office.

As the rally continued Wednesday, the number of demonstrators declined drastically. Around noon, the demonstrators again tried to converge on Rabin's office, but they were again pushed back by police.

According to Israel Radio, seven police officers and 27 protesters were injured, and 30 people were arrested.

Demonstrators, who included religious oppo-

sition parties and settlers' groups from the territories, vowed that they would remain outside Rabin's office until Thursday.

(Contributing to this report was JTA correspondent Michel Di Paz in Paris.)

ISRAELI OFFICER GETS 12 YEARS FOR SPYING FOR SOVIET UNION By Hugh Orgel

TEL AVIV, Sept. 8 (JTA) -- A colonel in the Israeli reserves has been sentenced to 12 years in prison for engaging in "serious espionage" on behalf of the former Soviet Union.

A district court here reached the verdict last week against Shimon Levinson, 60, in a trial that began in May 1991.

No details of the charges or trial have been allowed to be published, but it is known that Levinson left the Israel Defense Force in 1983.

He was reportedly embittered by the fact that he had been passed over for promotion and had not reached the rank of brigadier general before his retirement.

Following his IDF service, Levinson joined the staff of the United Nations, which sent him to Bangkok, Thailand, to take charge of a campaign against drugs.

It was in Bangkok that he reportedly first offered his services to the Soviet KGB, which he served from 1983 to 1991.

He was detained by the Shin Bet domestic security agency upon his return to Israel in May

1991, and was subsequently put on trial.

No details have been disclosed regarding the type of information he passed on to his KGB controllers, but sources within the intelligence corps say he "undoubtedly knew a lot about highly secret matters."

HAMAS CONTINUES ATTACKS IN LEBANON By Hugh Orgel

TEL AVIV, Sept. 8 (JTA) -- The Moslem fundamentalist group Hezbollah showed this week that it has not yet joined on the Middle East peace bandwagon.

The group admitted responsibility for virtually all the daily attacks against Israeli and allied forces in south Lebanon in recent days.

But despite shootings, mortar firings and roadside bombs aimed at the Israel Defense Force and its allied South Lebanon Army, most explosives have been discovered and exploded harmlessly, and no serious damage has been caused.

The Iranian-backed Hezbollah's stated goal is to force the IDF and the SLA out of Lebanon.

BEHIND THE HEADLINES:

ORDINARY ISRAELIS EXPRESS AMBIVALENCE
ABOUT PROPOSED PEACE ACCORD WITH PLO
By Michele Chabin

JERUSALEM, Sept. 8 (JTA) -- Nothing, perhaps, is more unsettling than the unknown. In the week since the Israeli Cabinet approved the broad outlines of an Israeli-Palestinian peace plan, residents here have found themselves confronted with more questions than answers.

As they ponder the rapidly changing political climate in their own backyard, ordinary citizens wonder whether the proposed agreement will be a first step toward peace or a threat to Israel's security.

Conversations with ordinary citizens reveal a feeling of expectation -- that something important is just around the corner. But there is also a sense of frustration that the government has not provided them with much information.

"The government isn't releasing enough details about how the plan will affect Israelis, and it's making me very nervous," says Rhoda Golan, a childbirth educator.

"I have very mixed feelings. If we could trust the proposal it would be great, but I don't think we can trust it. I don't believe that the Palestinians will be content with Jericho and Gaza. What will happen with Jerusalem? The truth is, I'm completely confused by the entire business," said Golan.

What Golan calls "the entire business" is a proposed Israeli-Palestinian agreement that was drafted after months of secret high-level meetings between top Israeli and Palestine Liberation Organization officials.

The proposed declaration of principles calls for Palestinian self-rule in Gaza and Jericho as a first step toward a gradual extension of Palestinian authority in the territories.

'Too Many Unanswered Questions'

Richard Kovler, a jewelry wholesaler in his mid-30s, said of the proposed agreement, "There are still too many unanswered questions. Who will have jurisdiction over certain areas if there is an accident or terrorist attack?

"What will happen to the Israelis living in Gaza and near Jericho? Without more information, it's impossible to make an informed opinion," said Koyler.

A professed right-winger, Kovler is nonetheless willing to give up Gaza.

"I've done reserve duty in Gaza and it's extremely difficult to keep a lid on the problems there. Honestly, Israel may be better off without it," he said.

But he is adamant about retaining control of Jericho. "Jericho is so close to Jerusalem, in the center of the country. Giving it up will compromise our security," he said.

Nor is he happy with the prospect of doing business with the PLO. "Arafat is a murderer and a terrorist, and I don't want the government to negotiate with him," said Kovler.

"Even more important, Arafat doesn't have enough power to keep a rein on the more radical Palestinians. I foresee a civil war inside the Palestinian camp. Where will that leave us?"

Extremist forces are also a concern for a Palestinian construction worker named Ahmed, who asked that his last name not be used.

"Peace is important for both the Palestinians and the Israelis, but there are people in both

camps who want to see the peace talks fail. I'm from a town near Ramallah, and I can feel the tension building. I'm afraid I don't foresee peace any time soon," he said.

Like so many others here, Yonatan, an 18year-old soldier serving in the Gaza Strip town of Khan Yunis, has mixed feelings about the plan.

"I think things will get worse if we pull out," he said. "There will be more infighting among various Palestinian factions."

But he does see an immediate benefit to the proposed pact: "I'd be thrilled if I didn't have to serve in Gaza. If the plan can get Israeli soldiers out of Gaza, it might be worth the gamble."

Miriam Laufer, who works in early-childhood ducation in Jerusalem, said she is "cautiously optimistic" about the peace process. "I think it's a step in the right direction, and I hope the Gaza-Jericho plan will be implemented soon."

But she admitted to some reservations.

"Even liberals like myself would like to learn more about the plan. For example, how will it affect Israelis wanting to travel through Jericho? Will we still have access to the places we visit now?"

Despite the uncertainty, Laufer supports the proposal. "It won't be easy," she said, "but I think the step needs to be taken."

During the past week, both the left- and right-wing elements of the political spectrum have mobilized their forces through demonstrations and letter-writing campaigns.

Teen-agers stand at street corners, handing out bumper stickers ranging from "Peace Now" to "We're Not Leaving Gaza" and "Rabin Doesn't Have a Mandate."

According to a poll published in the Hebrew daily Yediot Achronot, Prime Minister Yitzhak Rabin does have a mandate, albeit a small one.

Mina Tzemach, the country's leading pollster, asked Jewish adults whether they are for or against the Jericho-Gaza peace proposal.

The response: 53 percent supported the plan while 45 percent opposed it. The remaining 2 percent had no opinion.

The poll also revealed that support for the plan cuts across political party lines. For example, 29 percent of the respondents who voted for Rabin's Labor Party opposed the plan, while 30 percent of Likud supporters favored it.

JORDAN ASKS ABOUT FLYING OVER ISRAEL By Hugh Orgel

TEL AVIV, Sept. 8 (JTA) -- Peace seems to be breaking out all over.

Israeli Transportation Minister Yisrael Kessar reported Tuesday that he had received an indirect inquiry from Jordan about possible future permission for its planes to fly over Israeli air space.

The inquiry was passed along via French airline authorities.

Jordanian officials asked if Israel would be interested in cooperating with Jordan and its Alia Royal Airline in allowing such flights, which would cut travel time to Europe.

Word has it that the Jordanians would also be interested in establishing a regional charter service linking Amman, Jerusalem, Ben-Gurion Airport and the ancient Jordanian city of Petra to encourage regional and international tourism.

Kessar is reported to have instructed El Al, Israel's international carrier, and Arkia, its domestic subsidiary, to study such regional air links.

CINCINNATI COURT SHARPLY CRITICAL OF PROSECUTORS IN DEMJANJUK CASE By Aaron London The American Israelite

CINCINNATI, Sept. 8 (JTA) -- Apparently dissatisfied with the findings of a special master that it itself appointed, a federal appeals court here has sharply questioned whether U.S. prosecutors improperly withheld evidence during extradition proceedings against accused Nazi war

criminal John Demjanjuk.

Demjanjuk, who was acquitted by the Israeli Supreme Court of charges of being the notorious Treblinka guard "Ivan the Terrible," is meanwhile sitting in an Israeli prison awaiting a final decision from the Israeli high court on motions that he should be retried for war crimes.

The 6th U.S. Circuit Court of Appeals held a hearing last Friday that was supposed to focus on whether the court should accept the findings of U.S. District Judge Thomas Wiseman Jr. of Tennessee.

Wiseman was appointed by the court last year as a special master to investigate allegations of prosecutorial misconduct when Demjanjuk, a former Cleveland autoworker, was stripped of his American citizenship and extradited to Israel in 1986.

In a June 30 report, Wiseman concluded that although the government had failed to pursue some leads that could have cleared Demjanjuk, there was no intentional misconduct on the part of the prosecutors.

He recommended that the case be closed.

But the three-judge appeals panel was apparently not satisfied with Wiseman's conclusions. During Friday's hearings, they were sharply critical of the Justice Department's handling of the case and virtually put the government lawyers themselves on trial.

Their questions suggested that the Justice Department's failure to turn over evidence to Demjanjuk's attorneys would require the re-opening of his extradition case and perhaps lead to the reinstatement of his American citizenship.

Hearing Scheduled Before Israeli Acquittal

The hearing on Friday was scheduled before events in Israel put Demjanjuk's case into a new light. On July 29, the Israeli Supreme Court acquitted Demjanjuk of being the notorious Iyan.

But at the same time, the Israeli high court found that there remained compelling evidence that he had served as an SS guard at the Sobibor death camp and the Flossenburg and Regensburg concentration camps.

It was on these grounds that several groups of petitioners, including Holocaust survivors and the World Jewish Congress, called for a new trial.

Last week, Israeli Supreme Court Justice Theodore Orr ordered a further delay in Demjanjuk's deportation until the court could hear additional petitions calling for his trial here on new war crimes charges.

Last month, the three-judge panel of the appeals court in Cincinnati ruled that Demjanjuk could return to the United States once granted his freedom in Israel.

After an appeal to the full court was rejected, Attorney General Janet Reno announced that the Justice Department would not appeal to the U.S. Supreme Court.

The federal appeals court's chief judge, Gilbert Merritt, opened the proceedings last Friday by responding to statements by Jewish organizations and members of Congress denouncing him as being "lawless" and a "Nazi sympathizer."

"What we are deliberating about in this case is means and not ends." said Merritt.

"We never doubted that the end was reasonable -- bringing to the bar of justice and prosecuting those responsible for Treblinka and other death camps.

"But because the court has questioned the means used by the prosecution, some have said that the court also questions the ends. That is wrong." he said.

Merritt reiterated in his statement that the court was only concerned with "the propriety of the steps used to achieve the worthy goal of punishing those responsible" for the Holocaust.

Michael Tigar, a University of Texas law professor who is Demjanjuk's chief attorney, argued that even if all of the factual findings in Wiseman's report were accepted, "there are still grounds for granting relief" to Demianjuk.

Tigar claimed that the Justice Department was "neglectful" in its responsibility to turn over exculpatory evidence and that other potentially exculpatory evidence "was ignored."

He argued that the government's actions in the Demjanjuk case "endangered Mr. Demjanjuk's

ability to mount a defense."

Justice Department lawyer Patty Merkamp
Stemler acknowledged that in hindsight federal
prosecutors might have acted differently and
disclosed to Demjanjuk's defense lawyers testimony from other guards at Treblinka that "Ivan
the Terrible" was someone other than Demjanjuk.

But she said that the prosecutors had believed that the testimony was unreliable, and that it would have hardly helped Demjanjuk's case anyway since it placed him at Treblinka.

Judge Pierce Lively, another member of the panel, questioned Stemler closely on allegations of administrative problems in the handling of case

evidence was "lost" by the Office of Special Investigations -- a special branch of the Justice Department that prosecutes suspected Nazi war criminals -- Lively mentioned that he "could not understand the procedures in this OSI office."

Lively said, in particularly critical tones, that the alleged mishandling of evidence by the Department of Justice was "more than sloppy,"

Stemler replied that no evidence had been lost in the Demjanjuk case.

The court gave no indication as to when it would render its decision.

PROTEST HELD AGAINST CEMETERY ATTACK By Henriette Boas

AMSTERDAM, Sept. 8 (JTA) -- Some 2,000 people turned out last week for a silent protest against the desceration of 25 tombstones at the old Sephardic burial ground in Middelburg, the capital of the Dutch province of Zeeland.

The vigil took place at the graveyard on the night of Sept. 1, about a week after the vandalism took place.

The desecrated gravestones had been daubed with swastikas and anti-Semitic slogans such as "Heil Hitler."

A group calling itself Nazi Front Zeeland claimed responsibility, but police have not yet found who is behind this group.