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FM TEL AVIV

TO IMMEDIATE FCO

TELNO 216

OF 201300Z MAY 86

INFO ROUTINE AMMAN, BEIRUT, CAIRO, DAMQSCUS, RIYADH, JERUSALEM
INFO ROUTINE WASHINGTON

MIPT: THE PRIME MINISTER'S VISIT: ISSUES: JORDAN/PLO

1. THE ISRAELIS NEVER THOUGHT KING HUSSEIN COULD PERSUADE ARAFAT TO MAKE THE CONCESSIONS NECESSARY FOR NEGOTIATIONS. BUT THE MANNER OF HIS BREAK WITH THE PLO IN FEBRUARY TOOK THEM BY SURPRISE. ISRAELIS ARE DISTURBED BY WHAT THEY SEE AS THE KING'S INEPTITUDE IN HANDLING HIS RELATIONS WITH THE WEST BANK ARABS, BUT WILL COOPERATE WITH HIS NEW STRATEGY OF DEVELOPING AN ALTERNATIVE INDIGENOUS LEADERSHIP WHICH SUITS THEM WELL. THEY CONSIDER THIS A VERY LONG TERM AIM, BUT TO SOME PARTICULARLY THE HARDLINERS, THE HIATUS IS WELCOME AVERTING THE NEED FOR PAINFUL DECISIONS ON THE WEST BANK.

OCCUPIED TERRITORIES

2. ISRAELIS SEE VERY CLEARLY THE DILEMMAS POSED BY ANNEXATION/RETENTION OF THE WEST BANK AND GAZA AND THE CONFLICTING DEMANDS OF SECURITY, JEWISHNESS AND DEMOCRACY. MANY THINKING ISRAELIS FEAR THAT THE CONTINUED OCCUPATION IS BRUTALISING THEIR SOCIETY. BUT NO CONCEIVABLE ISRAELI GOVERNMENT SEES THE WEST BANK AS HAVING AN EXCLUSIVELY ARAB FUTURE (AND THERE IS A NATIONAL CONSENSUS ON RETAINING JERUSALEM). EVEN LABOUR DOVES ARE RELATIVELY HAWKISH IN OUR TERMS. LABOUR'S OFFICIAL POSITION IS TO RETAIN CONTROL OVER SPECIFIED KEY SECURITY AREAS OF THE WEST BANK AND TO STRENGTHEN JEWISH SETTLEMENTS IN THOSE AREAS. THE POSSIBILITY OF COMPLETE WITHDRAWAL FROM GAZA IN THE RIGHT CIRCUMSTANCES IS OPEN UNDER THE PLATFORM ADOPTED IN 1986.

3. THE STATUS QUO SUITS LIKUD. THERE IS NO PROSPECT THAT THEY WOULD MOVE TOWARDS EARLY ANNEXATION OF THE WEST BANK SINCE THIS WOULD MEAN FACING BITTERLY CONTROVERSIAL DECISIONS OVER THE STATUS OF THE ARAB INHABITANTS WITH NO PARTICULAR GAIN. TO GIVE ARAB POLITICAL RIGHTS WOULD FOR DEMOGRAPHIC REASONS RISK THE SURVIVAL OF A JEWISH MAJORITY IN ISRAEL BEYOND THE END OF THIS CENTURY. TO DEPRIVE THEM OF POLITICAL RIGHTS WOULD BE A NEGATION OF THE DEMOCRATIC PRINCIPLES ON WHICH THE STATE OF ISRAEL WAS BUILT, AND DIVISIVE BOTH HERE AND IN THE DIASPORA.

SYRIA

4. ISRAELIS REGARD ASSAD AS THEIR MOST IMPLACABLE ENEMY, BUT A COOL HEADED ONE. THEY DO NOT BELIEVE HE IS INTERESTED IN NEGOTIATIONS FOR A PEACE SETTLEMENT AT PRESENT, THOUGH THE DOOR SHOULD BE OPEN FOR HIM AT ANY CONFERENCE. BUT THE RECENT INCREASING EVIDENCE OF SYRIAN SUPPORT FOR TERRORISM WORRIES THEM AS EVIDENCE OF A LESS PREDICATBLE SYRIAN LEADERSHIP.

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5. IN SOUTH LEQNON, CURRENTLY THE MOST LIKELY FLASHPOINT, THE ISRAELIS HAVE BEEN SEEKING TO INHIBIT ANY SYRIAN MOVE SOUTHWARD. TENSION HAS SUBSIDED, AND THOUGH ISRAELI STRIKES CANNOT BE RULED OUT, THEY WILL AVOID IF THEY CAN BEING DRAWN INTO PROLONGED MILITARY OPERATIONS.

LEBANON

6. THIS IS NO LONGER A MAJOR ISSUE IN DOMESTIC POLITICS. THERE IS A PRACTICAL ARGUMENT ABOUT THE BEST TACTICS FOR SECURITY THE NORTHERN BORDER, AND SOME DISCUSSION OF, BUT NO REAL PROGRESS TOWARDS, COMPLETE WITHDRAWAL TO THE INTERNATIONAL BORDER. RABIN'S VOICE IS DECISIVE HERE AND, AGAIN, PERCEPTIONS OF SECURITY INTERESTS ARE PARAMOUNT.

EGYPT

7. PERES PUTS GREAT IMPORTANCE ON IMPROVING BILATERAL RELATIONS BUT A SOLUTION ON ARBITRATION OVER TABA REMAINS ELUSIVE, AND THIS PREVENTS A SUMMIT WITH MUBARAK AND THE ARRIVAL OF AN EGYPTIAN AMBASSADOR. THE ISRAELIS ARE IN NO DOUBT OF THE IMPORTANCE OF THE BILATERAL RELATIONSHIP AND TAKE MUBARAK SERIOUSLY. THEY ARE CONCERNED FOR THE STABILITY OF HIS REGIME IN ITS CURRENT ECONOMIC DISTRESS (ONE REASON WHY PERES IS SERIOUS IN HIS PROPOSALS FOR A REGIONAL 'MARSHALL PLAN').

DOMESTIC ECONOMY

8. THE LAST YEAR HAS SEEN SOME MAJOR SUCCESSES IN THE GOVERNMENT'S BI-PARTISAN AUSTERITY MEASURES (PRICE FREEZE, STRICT WAGE CONTROL, CONTROL OF RATE OF EXCHANGE AGAINST THE U.S. DOLLAR AND FOREIGN CURRENCY TRANSFER RESTRICTIONS). INFLATION IS DOWN TO DOUBLE FIGURES AND STILL DROPPING FROM OVER 400 PER CENT PER ANNUM AT THE END OF 1984. WAGES HAVE BEEN REDUCED IN REAL TERMS BY 20 PER CENT. BALANCE OF PAYMENTS AND FOREIGN RESERVES HAVE IMPROVED (LARGELY THANKS TO U.S. AID, THOUGH THE FALL IN OIL PRICES AND EUROPEAN CURRENCY MOVEMENTS HAVE HELPED). BUT THE ECONOMY IS STILL STAGNANT AND HEAVILY DEPENDENT ON U.S. AID (OVER 4 BILLION DOLLARS IN FY 1986). INTEREST RATES ARE HIGH (40 PER CENT PER MONTH), INVESTMENT LOW, AND SENSITIVE AREAS LIKE AGRICULTURE FACE INCREASING DIFFICULTY IN FINDING AND HOLDING MARKETS. THE PROSPECT IS FOR CONTINUED AUSTERITY THOUGH BOTH PARTIES ARE LOOKING FOR ELECTIONEERING OPPORTUNITIES.

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