

THE JERUSALEM POST

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U.J.A. drive;
air crashes,
page 2
★
Importance
of Eilat,
page 3
★
Schools may
stay open,
page 6

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Paying the cost

THE new fiscal measures to be tabled in the Knesset today will not come as a surprise, and are unlikely to encounter opposition. As a matter of fact, they are less than people would be ready to shoulder under the prevailing circumstances, and perhaps less than they will have to in course of time.

The Government has probably not yet made up its mind concerning the amount of additional revenue required to meet the increased expenditure, and did not wish at its meeting yesterday to commit itself in so controversial a matter as additional taxation since the Minister of Finance is now abroad. On the other hand, it felt — and rightly so — that the pretence of "business as usual" cannot, and need not, be upheld any more, and that some urgent steps must not be delayed.

The first of them is the issue of another Independence Loan of \$500m. at terms similar to those of the previous loan (i.e. 4 per cent interest and repayment after 15 years) to be offered to world Jewry and other overseas friends of Israel. While unprecedented amounts of donations are pouring in in response to the emergency appeals launched in many countries, they cannot, of course, cover the huge cost of Israel's defence, nor can they be used for this purpose. These funds are indeed urgently needed for social and economic relief, but the basic strategic needs must be met by the State, and it is to provide means to that end that the new loan will serve. Needless to say that while the loan terms are relatively easy — when compared with the terms prevailing in the world money market — they involve a heavy burden for the Israeli economy, which will have to carry the cost of servicing the capital in foreign currency.

But people in this country will be called to contribute to the defence effort more directly, and this in two ways: through a special levy, amounting to 10 per cent of personal income tax and seven per cent of the company tax and through the voluntary purchase of defence loan certificates. The levy is expected to bring in IL100m. during the current fiscal year, while the loan target has been set at IL250m., of which IL150m. are to be absorbed by the public — including institutional investors — the rest being pledged by the banks.

The primary intention of these measures is to reduce the people's purchasing power, in order to lessen the inevitable inflationary impact of current defence spending which is now taking place on a vast scale — vital, though obviously unproductive. At the same time, the social effect of the new levy should not be overlooked. While the income-tax payers will have to pay more (including probably many of the wage-earners who have been called up). On the other hand, people receiving dividends from companies will be doubly affected — first by the company tax and second by the personal levy.

The revenue expected from the levy and the defence loan will amount to 10 per cent of the current ordinary budget, or about one-third of the budgeted defence expenditure. That is a good deal, of course, but there is no way of knowing whether that will be enough. As a matter of fact, the Government has also decided to carry out various retrenchments in development spending — which are in any case untimely under the present circumstances of labour shortage and transport bottlenecks — and other low-priority items.

On the other hand, the defence orders themselves are likely to generate not only additional income, but also higher tax revenue. Indeed, the entire pattern of economic activity has changed out of recognition within a fortnight, and some of the changes have been decidedly positive. There is no question but that the nation will be able to take the additional fiscal burden in its stride and do so more than willingly.

TALKS OPENING ON ROCK'S AIR CORRIDOR

MADRID (UPI). — Six British technical experts arrived here yesterday from London for talks on Spain's prohibited air zone near Gibraltar. The talks will start today. The experts, from the Board of Trade, the Foreign Office and British European Airways were headed by British Embassy Minister Nicholas Henderson.

Spain invited Britain to open the talks to "listen" to Britain's case against the prohibited area which has forced planes flying in and out of Gibraltar's small airfield to fly along a narrow air corridor.

SHAH VISITING PARIS

PARIS (Reuters). — The Shah of Iran and Empress Farah arrived here by air yesterday from West Germany for a two-day visit, during which they will be received by President de Gaulle. The Shah and the President are expected to discuss the Middle East crisis and other world problems tomorrow.

The royal couple arrived from Germany where they were the target of demonstrations in West Berlin, Hamburg and Luebeck.

Develop Israel
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The new Ministers, Messrs. Dayan, Begin and Saphir, at the first session of the national unity government, in Jerusalem yesterday. Mr. Ze'ev Sharef, Minister of Commerce and Industry and Acting Finance Minister, is seated between Mr. Dayan and Mr. Saphir. (Photo by Goren)

Cabinet concerned over 'slowness' of action

Jerusalem Post Political Reporter

The Cabinet yesterday voiced "concern over the slowness with which the Powers are acting to lift the blockade" of the Tiran Straits, and "decided on the lines along which diplomatic action will be intensified in the capitals of the maritime powers." This was announced yesterday by the Cabinet spokesman after its regular weekly session in Jerusalem.

INCOME TAX PAYMENTS TO GO UP BY 10%

Jerusalem Post Reporter

Income tax will be increased by 10 per cent for the remaining months of the present fiscal year. Called the Defence Levy, it will raise the total annual return for 1967/68 by 8½ per cent (since two months, April and May, have already passed). This decision, adopted by the Cabinet yesterday, will be submitted for Knesset approval today.

The levy also includes an increase of company tax from 30 to 32 per cent, and an increase of the capital gains tax (though not the land betterment tax) from 25 to 30 per cent.

These higher imposts are intended to mop up purchasing power at a time when the means of payment are going up in the country. They will mobilize IL100m. of revenue in the current fiscal year.

At the Cabinet press briefing in Jerusalem yesterday, Dr. Ya'acov Arnon, Director-General of the Treasury, announced another two measures approved for submission to the Knesset:

- A second Independence Bond issue for sale abroad, on the same terms as the present issue — which is running out as sales increase in the U.S. in the wake of popular support for Israel.
- The new issue will comprise \$500m. of debentures, yielding four per cent for 15 years. The object is to raise money for "special purchases," Dr. Arnon said.
- A IL250m. Defence Loan will mobilize funds in the local market. It carries the same terms as the existing Development Loan, which yields IL50 net of tax after five years on every IL100 invested.

The banks have undertaken to buy IL100m. of the loan, within the next six months, Dr. Arnon said.

Moscow blasts Western plans

MOSCOW (UPI). — "Pravda," the organ of the Communist Party, accused the U.S. and Britain yesterday of trying to organize a "Holy Alliance of capitalist countries against the Arab states defending their sovereignty." Washington plans, according to Viktor Mayevsky, Moscow's most vitriolic diplomatic commentator, consist of three points:

- Summon a conference of Western maritime powers to adopt a declaration on freedom of navigation; apply political, economic and financial pressure against the Arab countries; organize a "naval operational group to resort to military intervention when Washington and London demand it."

The Soviet press, all week long, has continued its one-sided report on the Middle Eastern crisis, based mostly on dispatches from Cairo. Boasts by Arab leaders that they will destroy Israel remain conspicuously unreported here.

The newly co-opted Ministers attended the meeting, during which it was decided to add Mr. Yosef Saphir as Minister without Portfolio. (The appointment of Mr. Moshe Dayan as Defence Minister and of Mr. Menahem Begin as Minister without Portfolio was decided on at a special session last Thursday).

The three new Ministers will make their declarations of loyalty in the Knesset this evening, after the House has given its approval to their co-optation.

The Cabinet spokesman said all three new Ministers would join the Ministerial Security Committee (which now therefore has 13 members), but Mr. Begin and Mr. Saphir were not given any specific duties at yesterday's session. The spokesman said nothing was decided with regard to a Deputy Minister of Defence.

With regard to diplomatic action, the Cabinet spokesman said the Ministers' view was summed up after Mr. Eshkol and Mr. Dayan had reported on the security situation and Mr. Eban surveyed political developments. Mr. Avraham Harman, the Ambassador to the U.S., reported on his recent conversations in Washington.

WONT ELABORATE

The spokesman declined to expand on what was meant by "intensifying" political activities and would not even say whether special envoys are being sent to the maritime states.

Mr. Harman, who arrived on Saturday night to make his report, left for Washington last night. He was accompanied by Mr. Michael Comay, Ambassador-at-large, who also returned on Saturday night from a special mission to The Hague. Mr. Harman is expected to spend a few hours in London on his way to the U.S.

The official communiqué stated: The Cabinet at its weekly session yesterday heard reports on the security situation by the Prime Minister and the Defence Minister-designate, and a survey of political developments by the Foreign Minister.

- Decided to co-opt Mr. Yosef Saphir, M.K., to the Cabinet;
- Approved the following draft laws:
 - (a) State of Israel Bond Issue (Second Development Loan — 1967),
 - (b) Defence Tax — 1967,
 - (c) Defence Loan — 1967.
- Approved an amendment to the Employment Services Regulations, extending the period during which immigrants and discharged servicemen enjoy priority in obtaining employment;
- Validated the following treaties:
 - (a) An accord on technical and scientific cooperation between the Israel Atomic Energy Commission and the Peruvian Committee for Control over Atomic Energy;
 - (b) A cultural accord between Israel and Belgium;
 - (c) A convention between Israel and Britain on legal procedures in civil and commercial matters.

AFTER MIDNIGHT

The Voice of Palestine called on Jordanians last night from Cairo to "turn Mandelbaum Gate into a second Tiran" when the convoy goes up to Mt. Scopus on Wednesday morning.

West Germany's extreme right-wing National Democratic Party, purged of its relatively moderate wing, yesterday won seats in the Lower Saxony State Assembly. Television commentators gave the National Democrats a seven per cent share of the poll and 10 seats in the 119-seat assembly. The Social Democrats retained the overall leadership.

Mayor James Tate of Philadelphia said at Lydda Airport on arrival last night that he would ask the Mayor of Philadelphia's twin city, Mordecai Namir of Tel Aviv, what Philadelphia could do to help out in this hour of crisis. The Mayor and his wife came by Alitalia. (See earlier story, Page 6.)

Machineguns fired in Jerusalem area

Jerusalem Post Reporter

Jordanian positions in the Jerusalem area fired several bursts of machinegun fire into Israel territory at midday yesterday. There were no casualties and the fire was not returned.

The Army spokesman announced that at about 12.40, a number of bursts were aimed at an Israeli position from a Jordanian post in the Musrara district.

Prior to that Jordanian positions south of the city (it is believed facing Ramat Rahel and Bar-Giora) fired three machinegun bursts at a light Israel plane flying over Israel territory. At 12.45, shots were again fired at the plane, the spokesman said.

This reporter was driving through Mahane Yehuda at 12.45 p.m. when a sharp rattle of machinegun fire was heard. An old lady to whom he had given a lift asked shyly, "Should one go home?" She was reassured, since no-one else in the crowded market area seemed to take any notice of the noise.

Syrians refuse to take body

Jerusalem Post Reporter

TIBERIAS. — The Syrian marauder who was killed by an Israeli Army patrol near Kfar Hanassi on Friday morning will be buried in an Arab village after the Syrians have refused to accept the body.

The police are still detaining 19 villagers of the Beduin village of Touba, where tracks of the Syrian commando group were found. The villagers deny any connection with the Syrian infiltrators.

Police investigators believe that there might be only one villager who had been in touch with the Syrians. But they do not exclude the possibility that the Syrians have passed through the village to incriminate the inhabitants.

Johnson 'determined' to preserve peace

NEW YORK. — President Johnson declared here on Saturday night that he was "determined" to preserve peace in the Middle East and "determined to preserve the territorial integrity of nations involved." The President inserted the declaration in a speech that was otherwise confined to domestic matters.

The declaration may be made public tomorrow or Wednesday. This presumably would give time for the U.N. Security Council to approve or reject a resolution calling on both sides in the crisis for restraint. Diplomatic sources said that Britain and the U.S., its sponsors, hope to collect the signatures of 12 to 15 maritime nations in all, and perhaps more.

Opinion in Washington is that test of the blockade may be delayed for some 10 days or so and that eventually it will be by a ship carrying a flag of convenience.

The New Zealand Prime Minister, Mr. Kenneth Holyoake, announced in Wellington on Saturday night that his Government has agreed to join the U.S., Britain, the Netherlands and Israel in a declaration asserting the right of free passage through the Straits of Tiran.

"The declaration is in line with New Zealand policy because it reaffirms the view that the Gulf is an international waterway into and through which vessels of all nations have a right of passage," the Prime Minister said.

But he added that there was no question of New Zealand taking part in any action to test the Egyptian blockade of the Gulf.

In Tokyo, Foreign Ministry sources said Japan will not make a decision immediately on whether to join the U.S. and Britain in a declaration calling for freedom of navigation in the Gulf of Akaba. They said the Japanese Government has not made any decision, pending a formal action by the U.S. (INA, Reuter, UPI)

SOLDIER KILLED

SAFAD. — Ya'acov Bizam, 32, a soldier who fell in the line of duty on Saturday, was laid to rest here yesterday with full military honours.

Nasser proclaims he will not agree to free sea passage

Iraq joins defence pact

The Jerusalem Post Arabic Radio Monitor

Iraq yesterday adhered to the Egypto-Jordanian defence pact. Iraqi Vice-Premier Taher Yihye signed the treaty at a ceremony at the Kubbeh Palace in Cairo which was broadcast live over Cairo Radio.

In a 15-minute speech at the ceremony, President Nasser declared that he would not recognize any declaration by any group of maritime powers that the Gulf of Akaba must be open to all ships. Such a declaration, he said, "would be regarded as an act of hostility against our rights in the Gulf of Akaba and the prelude to war with the entire Arab world."

Nasser said that in the past 10 days "we have regained our rights as of 1956." He went on: "It is now high time that the U.N. resolutions in favour of the Arabs of Palestine be implemented, those decisions which Israel so insolently refused to implement. The time is ripe for the rights of the Palestine people to be granted recognition so that peace may finally return to the Middle East."

President Nasser said all American statements were biased in favour of Israel and the Arabs now knew their friends from their enemies.

Yihye arrived in Cairo yesterday morning at the head of a strong delegation which included Defence Minister Shaker Mahmoud Shukry.

It was announced in Baghdad yesterday that "large contingents" of Iraqi troops had left for Jordan to take up prepared positions. An authoritative source quoted by Reuters said more Iraqi troops would be sent during this week to Jordan and to Syria.

SYRIA IGNORED

Amman Radio in its report on the Iraqi signing did not mention Syria, which is linked to Egypt by a defence pact signed last November. Syria currently is virtually without diplomatic relations with Jordan.

King Hussein told a press conference in Amman yesterday that "Israel may choose to strike in the next few days." Hussein interrupted the meeting melodramatically when he was called to the telephone. He returned to say that he had spoken to Colonel Nasser who told him that Iraq had decided to join the Jordan-Egypt defence pact.

The King said the Arabs could "not be thankful enough" for the support of the Soviet Union in the present crisis. He also praised France. But referring to British proposals that the maritime powers declare the Gulf of Akaba an international waterway, Hussein said:

"I cannot find words to express my disappointment over the attitude the British Government has taken in this crisis. If Britain chooses to fight Israel's battle, then it will be fighting all of us." He said the least the Arabs expected of Britain is that she remain neutral or aloof.

HUSSEIN ON U.S.

With regard to the U.S., he said: "There is no clear evidence that the U.S. Government has yet adopted an attitude of fighting Israel's battle. We hope sincerely that most responsible U.S. leaders will look very closely at the problem and understand what is happening in the best interests of the U.S."

Asked if there might be some change in Jordan's new relationship with Egypt after the present tension eased, Hussein said, "The differences are gone and will never return."

Questioned about Shukri's "Palestine Liberation Organization" which Jordan banned until last week, he said, "We hope our brethren with the P.L.O. will carry out their duties in the present crisis. We expected from them all support and cooperation towards the common aim."

Iraqi President Abdul Rahman Aref said last night that foreign oil companies operating in Arab countries must now make up their minds whether they wish to surrender their concessions or come out clearly on the Arab side and refuse to sell oil to Israel. He was speaking at a conference of 11 Arab and non-Arab countries which produce oil or over whose territory oil is (Continued on Page 2, Col. 2)

Egypt-U.S. talks said under study

CAIRO (UPI). — Egypt and the U.S. are considering the possibility of holding talks concerning the Middle East crisis, informed sources said here yesterday. It was stated that part of the diplomatic move might be a visit by U.S. Vice-President Hubert Humphrey to Cairo, or alternatively, a trip by Egyptian Vice-President Zakaria Mohieddin to Washington.

However, no official comment was forthcoming and the sources pointed out that no decision has yet been taken. The disclosure of the possibility of talks came after U.S. Middle East expert Charles Yost left Cairo for Washington yesterday following a week-long visit "briefing himself" on the crisis.

However, it was learned the suggestion for top-level talks was not connected with Mr. Yost's stay. His only official contact was with Foreign Minister Mahmoud Riad. (In Washington, a State Department spokesman said he had no knowledge about talks with Egypt. The White House said it had no comment.)

Nasser is scheduled to receive U.S. Ambassador Richard Nolte's credentials today, in what would be his first meeting with any American official since the present flare-up began. The relatively quick scheduling of the accreditation ceremony strengthened the belief here that Egypt is anxious to keep all lines open to Washington at present.

The American destroyer U.S.S. Dyess, meanwhile, was met by more than 600 Egyptian demonstrators at Suez when it prepared to enter the Red Sea after transiting the canal. The demonstrators waved pictures of Nasser and chanted "Nasser, Nasser — down with Israel."

Nasser tones down in interview

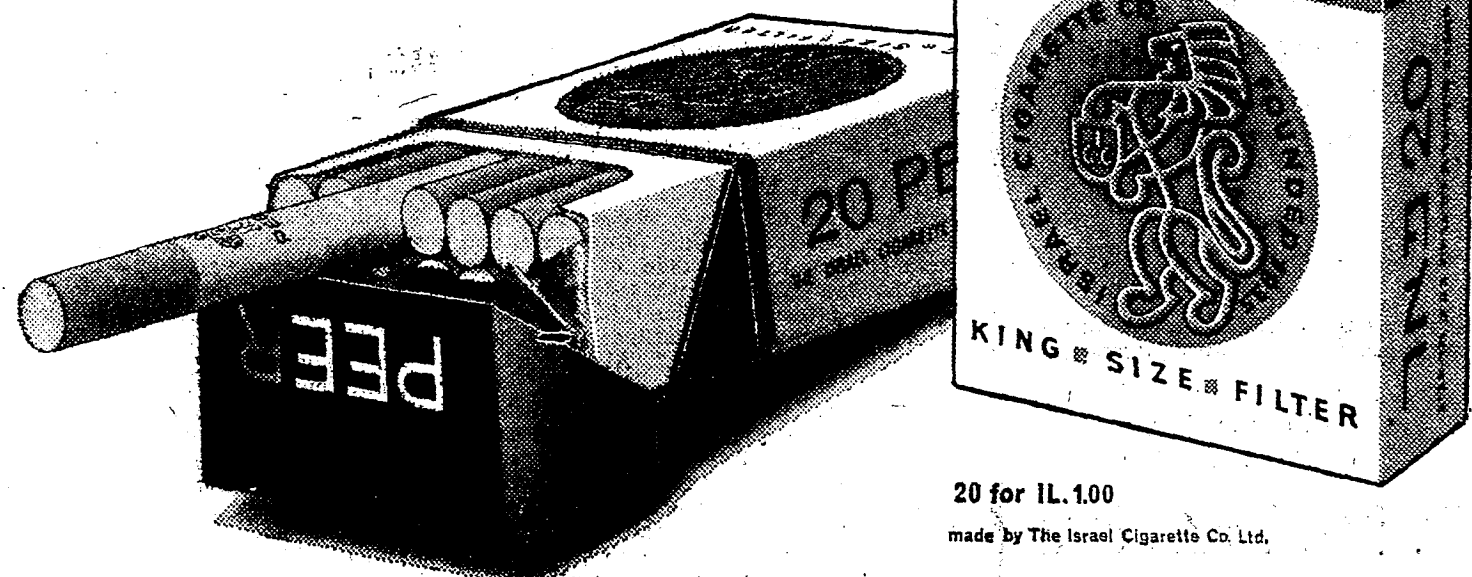
CAIRO (INA). — In an interview with former Conservative Minister Anthony Nutting in Cairo on Saturday night, Abdul Nasser said that as far as Egypt is concerned the Middle East crisis had eased and he planned no further escalation. He gave a strong impression, says the "Sunday Times", that he was reflecting the Russian view that war should definitely be avoided.

NO WITHDRAWALS FROM YEMEN — CAIRO REPORTS

CAIRO (AP). — Authoritative Yemen and Egyptian sources here said yesterday that no Egyptian troops have been withdrawn from Yemen since the current Middle East crisis. An Egyptian official pointed out that "not one single Egyptian soldier has been called from Yemen over the past three months."

The official said that Egypt does not consider that it can abandon one front to bolster another at this time. The report conflicted with rumours that Egypt's forces in Yemen have been cut to permit a shift to the Sinai front.

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