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FM TEL AVIV

TO PRIORITY FCO

TELNO 181

OF 091230Z MAY 86

INFO PRIORITY CAIRO, AMMAN, WASHINGTON

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TOKYO TELNO 531: THE PERES 'MARSHALL PLAN'

1. JUDGING BY PERES' RECENT MESSAGE TO THE PRIME MINISTER, HE WILL HOPE TO DISCUSS THE 'MARSHALL PLAN' IN SOME DETAIL DURING MRS THATCHER'S VISIT HERE.

2. IN YOUR CONSIDERATION OF ADVICE TO MRS THATCHER YOU WILL NO DOUBT TAKE ACCOUNT OF THE ISRAELIS' STATED READINESS TO 'FADE INTO THE BACKGROUND' IF THIS WILL HELP TO GET THE IDEA OFF THE GROUND. PERES MAKES THIS POINT IN HIS MESSAGE. NOVIK UNDERLINED IT WHEN I TOOK SIR A URWICK TO CALL ON HIM ON 5 MAY. HE ALSO TOLD US THAT THE ISRAELIS KNOW ALL ABOUT THE APPROACH WHICH THE EGYPTAINS HAD MADE TO COUNTRIES REPRESENTED AT THE TOKYO SUMMIT (CAIRO TELNO 304): AND INDEED SAID THERE HAD BEEN AN ISRAELI INPUT INTO IT. I DO NOT THINK THE ISRAELIS WOULD BAULK IF THEY KNEW THAT THE EGYPTIAN AMBASSADOR HAD TOLD THE PUS THAT HIS GOVERNMENT'S PROPOSAL DID NOT INDICATE SUPPORT FOR PERES' PLAN AND THAT THE LATTER WOULD BE 'UNACCEPTABLE' (YOUR TELNO 153 TO CAIRO).

3. NO DOUBT SOME HERE FAVOUR THE PLAN BECAUSE THEY SEE IT AS AN ALTERNATIVE TO PROGRESS IN THE PEACE PROCESS. BUT PERES IS SINCERE IN HIS BELIEF THAT A MAJOR RESCUE ACT IS REQUIRED TO PREVENT FURTHER ECONOMIC COLLAPSE IN THE REGION THE CONSEQUENCES OF WHICH COULD DAMAGE ISRAEL BECAUSE

A) GENERAL DESTABILISATION COULD BRING WAR CLOSER AND IF THERE IS IN ANY CASE TO BE A LENGTHY HIATUS IN THE PEACE PROCESS SOME FORM OF REGIONAL ECONOMIC PROGRAMME COULD DO SOMETHING TO ALLEVIATE ARAB TENSION AND FRUSTRATION WHICH WILL INCREASE ISRAELI SECURITY CONCERNES:

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B) ISRAEL WOULD NOT BE ISOLATED FROM THE ECONOMIC EFFECTS (SOME AUTHORITIES HERE ARE ALREADY CONCERNED BY THE PROSPECT OF A MAJOR INFLUX OF UNEMPLOYED PALESTINIANS RETURNING FROM THE GULF TO THE OCCUPIED TERRITORIES).

4. THE PRIME MINISTER CAN EXPECT TO FIND PERES IN PERSUASIVE FORM ON THIS SUBJECT. FROM WHAT THE US EMBASSY TELL US HE MANAGED WHEN HE VISITED WASHINGTON LAST MONTH TO CONVINCED MR SHULTZ AND PRESIDENT REAGAN THAT THERE WAS MERIT IN HIS PLAN DESPITE UNIFORM SCEPTICISM IN THE US BUREAUCRACY.

5. I RECOGNISE THAT, IF WE ARE TO TAKE A POSITIVE LINE, A MAJOR PROBLEM WILL BE WHAT FORM BRITISH SUPPORT SHOULD TAKE. THIS MIGHT BE AN OPPORTUNITY TO LOOK AGAIN AT ACCESS TO THE EUROPEAN COMMUNITY FOR PRODUCE FROM THE OCCUPIED TERRITORIES. THIS COULD POSE PROBLEMS FOR ISRAEL (AND JORDAN) AS WELL AS THE EC. BUT IF WHITEHALL FAVOURED THIS ROUTE OUR CONTRIBUTION IN PART COULD BE A COMMITMENT TO USE OUR PRESIDENCY TO PUSH FOR WORKABLE ARRANGEMENTS.

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