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TALKING WITH THE P.L.O.; U.S. SETS AGENDA FOR ITS DIALOGUE WITH PALESTINIANS

By **ROBERT PEAR, SPECIAL TO THE NEW YORK TIMES**

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One day after announcing that the United States would begin a "substantive dialogue" with the P.L.O. because the group had met American conditions for such talks, Secretary of State George P. Shultz said the United States would also tell the P.L.O. how important it was to uphold Yasir Arafat's renunciation of terrorism. Talks to Begin Friday

The American diplomat designated as the sole official liaison to the P.L.O. moved swiftly today to establish contact with the group and schedule the first formal talks. The diplomat, Robert H. Pelletreau Jr., Ambassador to Tunisia, telephoned P.L.O. headquarters in Tunis, and Palestinians there said a team of P.L.O. officials would meet with him on Friday. [Page A14.] Because of the many questions raised about the implications of the decision to deal with the P.L.O., Mr. Shultz took the unusual step of inviting Israeli journalists to his office to try to allay Israeli concerns about being abandoned by the United States. Israel has refused to talk to the P.L.O.

President Reagan said today, "We have not retreated one inch from our position of guaranteeing the safety of Israel." He said the Israelis did not have any valid reason to be upset with the United States. Make People 'Face Up to Reality'

But Mr. Shultz is known to feel that the Israeli Government of Prime Minister Yitzhak Shamir should show more flexibility in its diplomacy.

In an interview with The New York Times on Wednesday, Mr. Shultz, referring to Israel, said that "I think that the process of moving toward peace in the Middle East is a process of making people face up to the reality of the difficult decisions that will have to be made if you're going to get there." Mr. Shultz spoke shortly before the American decision was announced.

The State Department spokesman, Charles E. Redman, said there were at least three subjects on the American agenda for talks with the P.L.O. The first, he said, is terrorism. The second is procedure: Mr. Pelletreau is the "only authorized channel" for communications with the P.L.O., which has its headquarters in Tunis.

In addition, Mr. Redman said the United States would explain "our views of the peace process, how we see it, the importance of direct negotiations - all of the kinds of things that you know to be our approach to Middle East peace."

The United States favors an international conference as a prelude to direct negotiations between Israel and its Arab neighbors.

Mr. Redman said Palestinians had a "right to pursue their desire for an independent state" through direct negotiations with Israel. "They can bring that to the table if they want," he said.

The United States opposes the creation of an independent Palestinian state. Instead, it favors "self-government by the Palestinians" of the West Bank and the Gaza Strip in some sort of association or confederation with Jordan. Israel has administered the two territories since it seized them in the 1967 Middle East war. Question of a Peace Conference

A major question is whether the United States will now favor P.L.O. participation at a peace conference, given Israel's continued hostility toward dealing with the group.

In the interview, Mr. Shultz said the chief problem is "how you bring about direct negotiations between the key parties, to find your way to peace and how to structure that and how the Palestinians will be represented."

"It's still a big problem," he said. "You have to find a way of Palestinian representation that will also be compatible with Israeli representation."

Addressing the issue today, Mr. Redman said: "The question of which parties participate in negotiations is not for the United States to decide unilaterally. That is up to the parties, Arabs and Israelis alike, to decide."

Under the peace plan outlined by the United States earlier this year, the Secretary General of the United Nations would invite "the parties involved in the Arab-Israeli conflict," as well as the five permanent members of the Security Council, to the international conference on the Middle East.

Mr. Redman referred to the P.L.O. today as "one of the parties in the Middle East." But neither he nor other American officials would say whether they thought the P.L.O. should attend the conference.

Mr. Shamir said on Tuesday, "We are not ready and will never be ready to talk to the P.L.O." #1975 Agreement With U.S.

In the past, the United States has said that Israel should negotiate with a joint Jordanian-Palestinian delegation on issues like the future of the occupied territories. But the feasibility of such a delegation has come into question since King Hussein of Jordan announced on July 31 that he was breaking his legal and administrative ties with the territories and would not pretend to speak for Palestinians residing there.

Under a 1975 agreement with Israel, the United States has shunned contact with the P.L.O. Henry A. Kissinger, who as Secretary of State set the original conditions for dealing with the P.L.O., said today that "it was reasonable" for Mr. Shultz to conclude that the conditions had been met in "a complex, convoluted statement" issued by Mr. Arafat on Wednesday.

But in an interview, Mr. Kissinger cautioned that "the United States should do nothing until the new administration can determine both the substance of what it wants to achieve and the procedure it wishes to follow."

The American conditions for dealing with the P.L.O. were that it recognize Israel's right to exist, that it accept United Nations Security Council Resolutions 242 and 338 as the basis for peace in the Middle East and that it renounce terrorism. After comments by Mr. Arafat at a news conference in Geneva on Wednesday, the President Reagan declared that the conditions had been met.

The United States Ambassador to Israel, Thomas R. Pickering, said today that the United States' next move in the Middle East was to organize talks on a transition period intended to build confidence between Arabs and Israelis. More Warnings on Terrorism

"The idea of an interim or transitional period has been introduced in the process in order to find a way to give both sides an opportunity to become comfortable with the rather vast changes that would have to be made in achieving a final peace settlement," Mr. Pickering said in remarks to the Israel Council on Foreign Relations.

In the transition period, as envisioned by the United States, Israel would give Palestinians an opportunity to run some of their own affairs in the West Bank and the Gaza Strip.

At the White House, Mr. Reagan said the United States would "certainly break off communications" with the P.L.O. if the group committed terrorist acts in the future.

Richard W. Murphy, the Assistant Secretary of State for Near Eastern and South Asian Affairs, said that more terrorism "may well occur."

In an interview on the NBC News program "Today," Mr. Murphy said: "This is a very disorganized outfit, the P.L.O. There are many different elements in it." If terrorism occurs after Mr. Arafat's declaration renouncing it, then members of the P.L.O. will "have to explain what their stand is - how did this happen, who did it, and are you going to dissociate yourselves from it," Mr. Murphy said. State Department officials said they would closely monitor the conduct of P.L.O. members including Mr. Arafat, who was described by Mr. Shultz less than three weeks ago as "an accessory" to terrorism. On Wednesday, Mr. Reagan said the P.L.O. "must demonstrate that its renunciation of terrorism is pervasive and permanent," and Mr. Redman said today that "performance is going to count."

A member of the transition team for Mr. Bush said that the United States would have "devalued its word" if it had not opened talks with the P.L.O. after the group met the American criteria for such a dialogue. "You can't establish conditions and then change the ground rules when they are met," he said.

"The purpose of a dialogue is to see whether a meeting with the P.L.O. is serious and productive," said the aide to Mr. Bush. "If all we hear is propagandistic posturing or an effort to get the U.S. to deliver Israel, it will be neither serious nor productive. Peace has to be made with Israel, not with the United States." Mixed Reviews in Congress

Members of Congress were cautious in reacting to Mr. Reagan's decision to open a dialogue with the P.L.O. George J. Mitchell, the Maine Democrat selected to be Senate majority leader in the next Congress, said he supported the decision and regarded it as "a significant step toward advancing the peace process."

But Senator Jesse Helms of North Carolina, the ranking Republican on the Foreign Relations Committee, said: "I deeply regret the Administration's decision. The United States simply cannot combat international terrorism by negotiating with terrorists."

Representative Charles E. Schumer, a Democrat, said the move was an "enormous worry" for many people in his Brooklyn district.

"On the other hand," Mr. Schumer said, "there's genuine hope that peace can happen."