

**The Recent Political Situation in the Middle East and the Oil Supply
A Summary of Questions at the Japan-U.S. Joint Seminar**

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PECC/IEEJ Joint Seminar
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Today, we are honored by the presence of our distinguished guest speakers, on the subject of the Middle East situation and supply of oil, Ambassador Edward Djerejian, one of the world's foremost authorities on this subject and Ms. Amy Jaffe, an Energy Research Fellow at the Baker Institute, which is a world-famous authority on the analysis of oil supply and demand. Let us make this a memorable event.

Both our guest speakers, as important members of the United States' Iraq Study Group that is now attracting world attention, are extremely busy people. Ambassador Djerejian has to be with us via a teleconferencing system because he is currently engaged in negotiating with and drafting recommendations for many key players, including President Bush, Ex-President Clinton and British Prime Minister Blair, working together with the former Secretary of State J. Baker and L. Hamilton, the U.S. representative of the 9.11 Commission .

Because of this arrangement, today's seminar has been divided into two sessions. I will lead the first session and President Kudo of JPEC will lead the second session.

I will begin the first session by presenting a brief summary of typical Japanese concerns about the Middle East's problems and then I will ask Ambassador Edward Djerejian to speak on today's subject via the teleconference system and address the issues I have raised. After that, I will ask a few questions and also take a few questions from the audience. Ambassador Djerejian will respond to these questions by telephone.

This will be followed by a speech from Ms. Amy Jaffe. After her speech, I will again ask a few questions and take a few questions from the audience. Ms. Jaffe will then respond to our questions.

Let me start by making a short speech to express and reaffirm our common concerns.

- 1) The Middle East region supplies 90% of the oil consumed in Japan and this situation will persist for a long time. Japan's friendly relationship with Middle Eastern countries, which is crucially important, is not based solely on the supply of oil, but also involves many other aspects such as politics, economics and human-based support. Many Japanese, therefore, wish to deepen their objective understanding of the Middle East situation, not only from Japan's viewpoint but also from a global perspective.

In this context, many Japanese are interested in the ideas and policies of the United States as one of the most influential countries that could have a crucial impact on the Middle East region. Based on this concept, I would like to raise concerns that are shared by many Japanese people.

- 2) Firstly, I would like to hear your views on the Iraqi situation, particularly because this was a major focus of the U.S. midterm elections and today, in Amman, President Bush met with King Abdullah of Jordan and Prime Minister Maliki of Iraq.
 - a) In Japan, people generally believe that Iraq is now effectively in a state of civil war and that this situation may continue indefinitely, making it difficult to consolidate any attempts to stabilize the country.

On the issue of constitutional amendment, for example, the distribution of the ownership of and profits from oil alone is a major challenge with no easy solution expected in the near future. On the other hand, the restoration of peace and order has been made difficult by further escalation of the conflict among religious sects and ethnic groups and by the tendency of militiamen, governed by policies that are based more on the interests of religious sects and ethnic groups, rather than the nation's need for stability. The situation is further complicated by schisms within the Shi'ites, who at first appeared to be unified but are now splitting into different classes or different groups. Antagonism between religious sects is also affecting the discipline of the military and civilian police.

Given such realities, many Japanese wonder how Iraq can attain future stability and growth. The establishment of a federal system of government is one option, but what steps are being taken to this end?

In light of these questions, many people are now waiting for reports and recommendations from the Iraq Study Group (ISG), in which Ambassador Djerejian plays an important role. While I understand that ISG recommendations have to be kept secret before their announcement, I would like to ask Ambassador Djerejian to speak,

to the extent that he can, about the present situation in Iraq and its future prospects. In any event, I sincerely hope that the ISG's recommendations will be adopted as soon as possible, as realistic policies for stabilizing the Iraqi situation and for permitting future growth in that country.

- b)** I would also like to hear Ms. Jaffe's opinions on the future supply of oil from Iraq.

After the U.S. attack, oil production in Iraq, which stood at about 2.5 million B/D, dropped to about 2 million B/D. Production was expected to recover in a few years to 3.5 million B/D and then grow as high as 4 million B/D. This expectation is no longer valid. I would like Ms. Jaffe to speak about the current status of the persistent low level of investment in that grim situation. In addition, I would like to hear about the possibility of direct investments in the future by international oil companies and also about *the stabilization of the authority* for granting resource development rights, as a precondition for such investments, as well as her views on *the scenario for realizing such investments*.

- 3)** Our second concern is the situation in Iran. There are various concerns, including the following:

- a)** (1) Stopping Iran's nuclear development program; (2) stopping Iran's involvement in regional conflicts (particularly the so-called "support for terrorists" to Hamas and Hezbollah and Iran's intervention in conflicts in Iraq, Afghanistan and other countries); (3) the possibility of Iran contributing to the stability of Iraq in the future; (4) the reasonableness of expecting *democracy* from Iran, in the manner that the United States does; and (5) *the inflow of foreign capital and technology* required by Iran for oil and gas development.

- b)** Japan, as the only country in the world that has suffered a nuclear attack, has been urging all nations to abolish nuclear weapons. On account of Iran's nuclear development issue, Japan has requested Iran to eradicate all suspicion of developing nuclear weapons. The United States' attitude towards Iran is much harsher than towards Israel, India, Pakistan and North Korea, yet Iran remains inside the NPT framework and there is no clear evidence of nuclear weapons development. Many Japanese people suspect that the United States is applying double standards to Iran.

While the United States may insist that its approach to Iran is based on a more comprehensive viewpoint, I would like to hear, put simply, what the basis of the United States' approach to Iran is and how it can be said that there are no double

standards.

- c) Next, I would like to hear Ms. Jaffe's opinion on the development of oil resources in Iran. First of all, as long as Iran insists on *the buy-back system*, as it now does, foreign investment will not be forthcoming. Regarding the fact that the Japanese investment share in the Azadegan oil field decreased from 75% to 10%, what does Ms. Jaffe think about the future of oil field development in Iran and what are the minimum conditions that have to be met for international oil capital to start flowing into Iran? In addition, how should the international community invite Iran to implement such conditions? I would like to hear Ms. Jaffe speak on this subject, particularly in the context of a new international scheme for promoting foreign investment in oil-producing countries.

4) Next, I would like to hear Ms. Jaffe's opinion on the issues facing *the entire Middle East region*.

- a) The first topic I would like her to address is the United States' Middle East strategies. Is *democracy*, in the form expected by the United States, really feasible in Middle Eastern countries? In many Western countries, *democracy* is thought to be a universal value, which they expect Middle Eastern countries to accept. However, it has been pointed out that, while *democracy* assumes that *strategies pertaining to the running of the nation should be the culmination of values sought after by individuals*, people in the Middle East have a strong tendency to believe that *matters pertaining to the running of the nation should depend on politics and diplomacy among the groups concerned with the subject of profits and values*. Considering the traditions, cultures and social structures of the Middle East, the acceptability of *democracy*, as conceived in the Western society, is questionable. Surely we need a more realistic approach, one that respects the different cultures, traditions and social structures of the Middle East, don't we?

I was very interested when I heard that, in early October, Prince Turki al-Faisal, the Saudi Arabian Ambassador to the United States, criticized the U.S. during a public speech in Washington D.C., which included statements like: "*the Bush Administration's Middle East policies are unproductive with many justifications and big, empty words*" and "*the United States' policy of bringing democracy to the Middle East is top-heavy with theories*." Since these are the words of an ambassador from a country that has friendly relations with the United States, and who has been involved in intelligence activities for a long time, I am interested to find out how these sentiments were received in the United States.

- b) Next, I would like to hear Ms. Jaffe's comments on a practical issue: the approach to peacemaking in the Middle East region. I believe that, without *successful peacemaking in the Middle East*, there can be *no stability in that region or in the global energy market*. Ambassador Edward Djerejian, who graciously accepted our invitation to speak today, is one of the world's foremost authorities on this subject. His views on the future will be particularly important.

In the last 20 years alone, peacemaking efforts have continued to stumble over many obstacles, in spite of hopes of progress being raised by the Madrid Peace Conference and the Oslo Accords, for example. In 2002, a framework proposed by Prince Abdullah, now the King of Saudi Arabia, received support from President Bush, and the same framework is again being discussed and re-evaluated in many Middle East regions. I would like to hear comments on *Middle Eastern peacemaking efforts*, particularly in connection with the implications of the recent conflict between Israel and Palestine and the conflict in Lebanon.

I have chosen my questions purposefully and although they are provocative, they are also sincere. I have raised these questions because I believe that *the stability in the Middle East* and *the harmony between the Middle East and the rest of the world* are crucial to the stability of *the global energy market*. Let us now listen to the speeches of two world-famous experts on these subjects, and their answers to the questions I have just outlined.

I invite the audience to watch Ambassador Edward Djerejian's speech on the video screen.

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