

“Recent Situation in the Middle East and the US Middle East Policy”

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It is a great honor to be here today to speak to this very distinguished audience about the situation in the Middle East. Meeting such as this one organized by The Petroleum Energy Center of Japan, The Institute of Energy Economics of Japan and The Baker Institute are vitally important to the exchange of ideas and information that will be crucial to help both the United States and Japan develop successful strategies in the Middle East to weather the difficult circumstances of today’s volatile international oil market.

I am deeply sorry I could not be with you personally today. I have been involved with the Iraq Study Group this week in high level meetings in Washington and unfortunately, therefore, was unable to travel to Japan to be with you in person. However, I plan to join you by tele conference and look forward to our discussion today.

As you may know from press reports, The Baker Institute is one of four supporting public policy institutions of the Iraq Study Group, a bipartisan panel of respected United States leaders who will be making an independent assessment of the path forward to the United States and Iraq. We are working very hard in preparing this report. This group led by the Honorable James A. Baker III and Congressman Lee Hamilton will present its findings to the United States President, the Congress and to the American People.

I am looking forward to sharing ideas with you this afternoon about the situation in the Middle East, but first I would like to thank my very good friend Mr. Masahisa Naitoh, Chairman and CEO of the Institute of Energy Economics of Japan, for the opportunity to speak to you today and for his an abiding and strong support to The Baker Institute and its mission to promote the development of informed and realistic public policy choices in the energy area.

My thanks also to the Petroleum Energy Center of Japan and its Chairman Mitsunori Takahagi and its President, Tomiyuki Kudo for organizing today’s seminar together with the Institute for Energy Economics of Japan. Our joint energy research partnership with JPEC remains our most successful international venture to date, and we deeply appreciate it, the opportunity to continue to study the international energy scene together with the fine scholars and government experts from Japan. Today’s meeting reflects the quality of that collaboration over the years.

I would also like to thank Mr. Yoshiyuki Iwai, Director of Natural Resource and Fuel Department, Agency for Natural Resources and Energy of METI, for taking the time to address our group today and to extend my

appreciation to our distinguished guests, all of you in the audience today, from the Japanese public and private sectors and the many diplomatic representatives from the Middle East and around the world who are giving their time to join us in our important dialogue.

The Baker Institute is currently engaged in a major research study with JPEC on the role of the national oil company in international energy markets. This study, to be released in March 2007, is examining the growing influence of the NOC, the National Oil Companies, in international discourse and their importance in delivering future resources to meet future world energy demand. The study will include a major survey of the oil industries of Iraq, Iran and Saudi Arabia, as well as other major producers of oil and gas. My good colleague, Ms. Amy Jaffe will speak to you later today on this topic.

But I would like to take this opportunity to discuss with you now my opinion of United States policy in the Middle East and important trends that, I believe, need to be better understood, especially in both of our capitals in Washington and in Tokyo.

First, let me address the issue of Iraq. As an active participant of the Iraq Study Group, I am under very tight constraints on what I can say publicly about the substance of our deliberations. So you'll have to forgive me if I cannot get into any substance of details. I can't. So, I'm sure to disappoint you on this score. However, I can tell you about the process of our work and our deliberations: First, the Iraq Study Group is congressionally mandated. Second, it is bipartisan with very distinguished Democrats and Republicans under the co-chairmanship of Secretary James A. Baker III and Congressman Lee Hamilton. Third, we are assessing the current situation in Iraq. We're not looking back and our task is to suggest a way or ways forward. We've had meetings in the United States with the highest levels: from the President of the United States, with his national security team, with military, with the Congress both Republicans and Democrats; and one meeting last week, we set a meeting last week, we met with the President at the White House, and his very top advisors, cabinet, officers, and then the next day we met with ranking Democrats, including former President Bill Clinton and former Democratic Secretaries of State. So you can see the bipartisan nature of this Iraq Study Group effort.

We have met with a large number of foreign leaders and envoys and representatives, including UK Prime Minister Tony Blair, President Mubarak and representatives of Syria and Iran. We went to Baghdad and had a series of extensive meetings from President Talabani of Iraq to Prime Minister Maliki, to ministers, deputy ministers, members of the various Iraqi political parties, Iraqi's religious leaders, NGO's, our top military commanders in the field in Iraq, our top American diplomats in the field in Iraq. We have organized a large group of experts in

Washington who represent the whole gamut of opinion from left to right and have great expertise. Many of them have great expertise on the Middle East and on Iraq. And I'm happy to say that our own Amy Jaffe is a member of one of these expert working groups.

We are taking in the Iraq Study Group a very hard look at the situation in Iraq and the region. We hope to have a comprehensive set of recommendations before the end of the year. Let me make clear that there is no simple solution or panacea to the situation in Iraq, but this is a very important bipartisan effort to try to find a way between the so called, "stay the course" and "cutting and running". The stakes of the outcome are very high and we are taking our deliberations very seriously.

Let me turn to the Middle East in the strategic context and what I would like to do is talk about the situation in terms of the Arab-Israeli context, Syria and Iran and a possible way forward in terms of how we deal with all these issues. My basic suggestion, if you will, recommendation is that we have to start transitioning a way from conflict management to the Middle East to conflict resolution in order to find more permanent solutions to the contentious issues that are causing so much tragic pain and suffering in the region and that are affecting national security interest of not only in the countries in the region but of my own country, the United States, the Europeans, the Asians and globally. The Middle East, to state the obvious, is a very strategic part of our globe.

In terms of United States policy in the Middle East, I believe we are at a critical crossroads. Out of our current crisis for example being in Iraq, the situation in Iran, being in the Arab-Israeli context comes an opportunity (that) I believe as I mentioned to move from conflict management to conflict resolution. Anything less, in my opinion, will merely defer matters until the next round of conflict in fighting erupts between for example Israel and its Arab neighbors. I believe the United States should seize the moment to transform, for example, the recent Israeli - Hezbollah - Lebanese conflict into a comprehensive strategy for Arab-Israeli peace with a view for a peaceful final settlement. I believe the time has come for the United States to lead the international community to conduct such an effort. This will do more, in my view, than anything else to marginalize the forces of Islamic radicalism and terrorism by enhancing the prospects for regional peace and security, and political, economic and social progress.

This approach requires bold and clear leadership from the United States administration with a strong support of congress. And in close cooperation with our allies, such as Japan and countries in the Middle East region. If anything, the Israeli-Hezbollah conflict confrontation has proven what should be painfully clear to all of us, to all the parties involved that there is no viable military solution to the Arab-Israeli conflict.

Israel with all of its regional military superiority cannot achieve peace and security by force alone, nor can Hezbollah, Hamas and Palestinian Islamic Jihad destroy the state of Israel with their terrorist acts and suicide bombers. Also, Israeli policies of unilateral withdrawals from occupied territories and building walls have proven to be illusive in obtaining real security. In short, only negotiated agreements that bind both sides can bring real security and peace.

Hezbollah indeed is the spark that set off this latest confrontation between Israel and Lebanon but it is not the root cause. The two major causes are the unresolved Arab-Israeli conflict on the Palestinian, Lebanese and Syrian fronts and the seminal struggle for ideas within the Muslim world between the forces of moderation and the forces of extremism. The Islamic Jihadists exploit the Arab-Israeli conflict for their own ends. The absence of peace plays into the hands of the terrorists and the extremists. They seek to define the struggle in existential terms with a goal of establishing their extremist model of Islamic governance in the region as a whole.

The near enemy as Al Qaeda defines it are the impious Arab regimes and Israel, and the far enemy are the United States and countries that support these Arab regimes and Israel. This struggle for ideas and the Arab-Israeli conflict are linked; make no mistake about that, especially the issue of Palestine, which remains the central in Arab perceptions.

It has been clear since the early 1990's with the collapse of the Soviet Union and the end of the zero sum game in the Middle East, between the two super powers that United States policies in the region should focus on two major objectives in addition to the peaceful settlement of the Arab-Israeli conflict: First, supporting the moderate forces in the region by promoting the building blocks of democracy and broaden political participation according - and this is very important - according to the particular circumstances and traditions of each country. And second, economic reforms and the development of market economies in order to create jobs and promote social justice with due consideration to the necessary safety nets for the poor.

Democracy is not just elections. It is amongst many other things, the rule of law, political parties, and development of civil society, protection of minority rights, the human rights and economic development and opportunity. The manner in which democracy and (its) promotion is carried out is critical and we need to take into account the cultural framework of the region, as well as local, ethnic, sectarian and social traditions.

In terms of the Arab-Israeli conflict and peace making, the extremists define this conflict as an existential one that came to mind set in the Arab world in the 1940's and the 1950's to destroy the state of Israel. The moderates in the region continue to accept the political settlement based

on the principle of land for peace. In other words, the issue is one of borders, borders not existence.

I believe you are all well familiar with the efforts of the United States historically since 1967 to make peace between the Arabs and Israelis. And again we have some positive examples. There are examples of failure in the effort, but there are examples of success. When you look at President Nixon and Secretary Kissinger in 1973 – 74, the disengagement agreements after the Yom Kippur War. When you look at what President Jimmy Carter did in bringing peace between Israel and Egypt in 1979 and Camp David Agreement, and when you look at what Secretary of State James A. Baker III and President George Herbert Walker Bush did in 1991 in the formation of the very important Madrid Peace Conference, which brought the Arabs and the Israelis for the first time in history in direct face-to-face negotiations. That framework of Madrid remains the framework for comprehensive Arab-Israeli peace today. And then President Clinton made valiant efforts on both the Palestinian and Syrian sides to bring peace and while progress was made, the parties were not able to be brought together to make peace at the end of the day.

I believe that President George W. Bush should now reiterate in word in actions his vision, his excellent vision for comprehensive Arab-Israeli peace settlement on all fronts that he stated in his June 2002 speech and very importantly his explicit call by the American President for two-state solution, with the state of Palestine living in peace and security next to the state of Israel. It is not insignificant that a good leader, such as Ariel Sharon and Ehud Olmert, have endorsed the two-state solution as the viable way forward for Israel to maintain its identity as a democratic Jewish state, given the demographic realities in the regions between the Jordan River and Israel, with an ever increasing Arab population.

A United States initiative coupled with the then Saudi Crown Prince of Abdullah's now King Abdullah Saudi Arabia's peace initiative declared that the Arab summit in Beirut that in the context of comprehensive peace agreement between Israel and its immediate Arab neighbors, the Arab states would sign the peace agreement with Israel and establish normal relations. This would significantly enhance the prospects of outflanking the obstruction agendas of Hamas, Hezbollah, Palestinian, Islamic, Jihad and Iran.

This comprehensive approach to peace could be modeled after the framework of Madrid Peace Conference, which would bring the Arab and Israeli parties together and address the issues on the Palestinian, Lebanese and the Syrian fronts in separate tracts but in a parallel manner.

Let me now turn, if I may, to Syria. Two of the most difficult relationships United States has in the Middle East are Syria and Iran. The issue is whether or not we should engage with these countries. Let me make some

comments. Whether or not the Syrian leadership, that is, especially the Syrian President Bashar Al-Assad had the intent political will and decisiveness to play a constructive role, I believe, should be tested.

The Bush administration's engagement with the Syrians between 2003 and 2005 left both sides frustrated with the results. And Washington has left with the impression of serious performance on the number of issues as being too little too late. Syria has left with the impression that Washington was always upping the ante and would never be satisfied, nevertheless, ever since the Madrid Peace Conference in 1991, Syria has looked upon the United States, as the key, interlocutor, the honest broker between Syria and Israel in peace negotiations to obtain the return of the Golan Heights for full peace.

During President George Herbert Walker Bush and Bill Clinton's administrations, detailed negotiations took place and while they did not result in final agreements, the major issues of land, peace, security and water, access to water have been extensively dealt with. In my view, at least 90% of those negotiations have been rather closely defined and could be resumed.

The merits of engaging Syria, I believe, should be considered seriously by the United States administration in the context of the comprehensive approach to the regional issues in the Middle East. With muscular diplomacy in the late 1980's and 1990's, the United States achieved some very positive results in this engagement with Syria, including also the end of the civil war in Lebanon, Desert Storm and Syria's agreement to negotiate directly with Israel, which led to the opening to the Madrid Peace Conference.

While the circumstances today are not the same and the investigation by the UN commission on the assassination of the popular prime minister of Lebanon Rafic Hariri may prove to be a serious inhibiting factor, Syria cannot be ignored in the regional context.

Let me turn to Iran. Iran plays the key outsider role in relation to Hezbollah in the Levant. While Syria is the facilitator, Iran is the patron of Hezbollah ideologically, politically and financially. Hezbollah is definitely a grass roots Lebanese organization but Iran's influence is strong. At the strategic level, any sustainable agreement with Hezbollah in southern Lebanon will involve in one way or another Iran.

How to get Iran engaged is problematic. Let us be honest, especially given the United States - Iranian relationship and Iran's policy. Nevertheless, the United States and Iran have engaged with one another constructively on Afghanistan.

On Iraq, much more needs to be done. On the nuclear issue, that is being dealt with in the United Nation Security Council context and in the context of the Perm Rep 3, the UK, France and Russia, where I believe it should remain as the focus of negotiations. And while Iran sees it in its interest to have the United States suffer in Iraq, it would not serve its interest if United States policy failed and Iraq devolved into a full scaled civil war leading to its territorial disintegration.

Iran's population is slightly over 50% Persian but it has a large Azeri minority that makes up 24% of its population as well as Kurds and Arabs. Therefore, worst case scenarios in Iraq would have serious consequences for Iran's own national security interest.

The Iranian leadership sees the world through the prism of the Muslim world, not in east-west terms. It considers itself a regional power. It wants to be dealt with on those terms, especially by the United States. And while its influence in Iraq has increased in the current turmoil on the domestic front, Iran is straddled with the states in bloated economic structure, high unemployment and inflation. There is an important Iranian reformist movement and a very youthful population. So I think the task and the challenge now is whether or not Iran can be engaged constructively to determine whether or not it is willing to pursue constructive policies in the region.

So in concluding, let me state that the dangerous challenges emanating from the Middle East require, I believe, a coherent, strategic approach along the lines I have mentioned. All, all of the key issues: Arab-Israeli, Iraq, Iran, the need for political and economic reforms and the challenge of the struggle between extremism and terrorism and the forces of moderation are all inextricably linked. Nothing short in my view of a comprehensive strategy is called for. It would do much to marginalize the extremist and terrorist and promote United States values and interests as well as those of our allies and do much to promote our image globally. The question is whether we and our allies can muster the political will to move forward in this manner.

Thank you very much for your time and your attention, and I will be very happy to take questions from the audience. Thank you.

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