POLITICAL ISLAM: CHALLENGES FOR U.S. POLICY

SIXTH CONFERENCE

VOL. 22, NO. 3
MAY 28-JUNE 3, 2007
DIRECTOR AND MODERATOR:
Dick Clark

THE ASPEN INSTITUTE
Washington, DC
Table of Contents

Rapporteur's Summary ........................................ 1
Geoffrey Kemp

Shia-Sunni Rivalry: Implications for U.S. Policy Toward Radical Islam .......... 11
Voli Navi

Iraq: Strategic Choices for the United States .......................... 17
Ellen Lafson

The Iranian Nuclear Challenge: Five Options? ......................... 23
George Perkovich

Saudi Arabia, the U.S. and Energy Security .......................... 29
Henri Barkey

Conference Participants ........................................... 35

Conference Agenda ................................................ 37
Rapporteur’s Summary

Geoffrey Kemp, Ph.D.
Director of Regional Strategic Programs
The Nixon Center

The sixth annual conference on Political Islam was held in Ljubljana, Slovenia, May 29-June 3, 2007. The meeting focused on recent developments in the Middle East, particularly Iraq and Iran, and the continuing concern about energy security and the stability of the U.S.-Saudi relationship. Participants were also briefed on Middle East politics as seen through the eyes of an observer from Cairo.

The first day’s discussion was led by Vahid Na'vi who focused on the growing importance of the split between the Sunni and Shia factions in the Middle East. Sunni-Shia rivalry is not only an important determinant of Iraq’s future but has wider regional overtones, most notably in Lebanon. Al Qaeda has exploited sectarian violence to promote anxiety throughout the Sunni world that the activities of the Iraqi Shia and Lebanon’s Hezbollah are a part of a ruse to convert Sunnis to Shia Islam. There is potential for further sectarian divisions throughout the Middle East, particularly in Bahrain where the majority of the population are Shia but are dominated by a Sunni leadership.

Sunni radicals in the Middle East are obsessed with the Shia resurgence and now see the issue as a central factor in the overall challenge Shia Iran poses to the Arab world. Although the Sunni-Shia split is centuries old it has emerged as a recent phenomenon primarily because of what is happening in Iraq and Iran. Ninety percent of the world’s Shia reside between India and Lebanon; Shia networks cut across national borders due to family and tribal affiliations. For the United States this means that any settlement in Iraq will eventually bring Iran and Iraq close together. It is in the interest of the United States to prevent sectarianism from spreading because when it does, it ferments radicalism. To do this, one must try to establish a new order that includes Iran. Any plan for excluding Iran is unfeasible.

In the ensuing discussion, it was questioned whether the Iranians are prepared to play a more conciliatory role. If you believe that their objectives are hegemonic then one can be skeptical of their intentions. However, if Iran’s primary goal is to not lose its strong position in Iraq then they will find it in their interest to work with the U.S. to establish some semblance of order. After all, Iranians have to live in the region long after the United States has left.

What does the growth of sectarianism throughout the Middle East mean for moderate Muslims? The problem is that moderates do not have the power and influence of radicals, and that they get drowned out in the ensuing, high vocal confrontation that is now underway. There is great suspicion in the region of American policy, particularly over what has happened in Iraq since the attack on the holy shrine in February 2006. The U.S. has been perceived to be on the side of the Shi’ites, but the Sunnis still have a strong hand. Following the war in Lebanon in 2006 there has been further
increase in sectarian violence. The question is what should the U.S. do now? Is the surge in Iraq designed to crush Sunnis, Shi’ites, or both? And can this be done without making enemies amongst all parties? The U.S. cannot be on both sides; there are others in the region that have leverage. The U.S. cannot leave Iraq completely, and it cannot leave overnight.

Some wished to have a better understanding about the sources of sectarianism in the Middle East. Do suicide bombers come from one particular group rather than another? One answer is that the Sunni-Shia conflict is really about power rather than religion and, in particular, who will own Iraq. Suicide is a strategy and is used by both sides to be a political solution but the U.S. has insisted on establishing democracy in the region. The problem is that given the social difficulties in the Middle East many countries do not morph easily into western style democracies.

A major tragedy in the region is the large number of refugees from the conflict in Iraq. There are over four million, two million of whom have left the country. This has an impact on the international front. It is particularly destabilizing in Jordan where one-sixth of the population are now primarily Sunni refugees from Iraq. This affects Jordan’s view of the Iraqi situation, and makes its extremely nervous about power. Not only are Sunnis leaving Iraq, but the best and the brightest are a part of the refugee exodus. Iraq has been cleansed of its middle class, leaving behind societal clashes between the lower classes.

One participant questioned whether the U.S. is not making too much of the Sunni-Shia rivalry. There is a great deal of intermarriage between Shi’as and Sunnis in the Middle East; most elites do not talk in terms of religious rivalry. The issue has become exaggerated and eradicated because of al-Qaeda but fundamentally the Sunnis and the Shi’a have been getting on with each other for hundreds of years. What changed was the Iranian revolution which brought to power a Shi’ite theocracy, and now, we have the prospect of a Shia dominated Iraq.

The irony of the American occupation was noted. It has provided the pretext for the Shia revival, and now it is splitting the Middle East. What has happened in Iraq is the shift in a balance of power which has seen the election of the first Arab Shi’ite state. It is paralleled by the rise of Iran and the demise of the Iraqi army. It has set in motion actions whose future we cannot predict. Again the problem is that the educated cosmopolitan elites in the Middle East do not believe that the Sunni-Shia rivalry is an insurmountable problem. But the lower classes are more focused on sectarianism and how it affects their day to day life.

The difficult situation in Afghanistan was discussed. Afghanistan is a region where the Saudis and the Iranians competed with different factions of various status. There is worry about a Taliban resurgence; this would threaten Iran and could undo President Karzai’s coalition. No matter how one looks at it, the United States is going to have to get more involved in Afghanistan. The problem is the U.S. has already lost a great deal of leverage in Afghanistan in our relationship with President Musharraf of Pakistan. Pakistan has its own agenda on Afghanistan that is not related to sectarianism but is related to the fact that India, so far, is one of the great benefactors of the Afghan war. There are now twelve Indian consulates in Afghanistan. In the concluding session, members of Congress discussed policy choices the U.S. faces in the region. In Congress Iraq is seen more and more as a civil and sectarian war and the United States should not be in the middle of it. It was important for Congress to understand the complexities of the Sunni-Shi’ite divide. But if both sides turn against the U.S., what is being done cannot be sustained. The question is what incentives are there to engage Iran and its neighbors? It has to be made clear to neighboring countries that the U.S. is leaving, but, essentially when and how that occurs has to be worked out. The complexity of the region should give us some humility and there should be further limits on unilateralism. We have to admit that we cannot do this alone. This relates to the broader questions as to why we are in the Middle East, and why the United States is pre-occupied with the Middle East rather than Latin America or Africa. Essentially, it has to do with Saudi Arabia and energy, support of Israel, the aftermath of 9/11, and the fear that weapons of mass destruction could fall into the hands of terrorists groups. We have to accept that Iran may be the only country with sustainability in the region. The United States needs to regroup and evaluate what it is doing. Increasingly the U.S. is seen as the odd man out—our allies and enemies are not following us. Nevertheless, the recognition of the complexity helps to clarify the policy challenges the United States faces. Obviously there are not to be a political solution in which the United States plays an important role in establishing regional order. Iran has to be a part of that order. The costs of U.S. presence are not as serious as costs of confrontation in the region. The problem in the United States is with public opinion which has turned against the war.

Unfortunately, in Congress there is very rarely a sophisticated discussion of the complexities of the issues which have been discussed at this conference. Some members felt that we must look back on our role in Iraq with a certain humility and learn from our mistakes. The U.S. contribution to all the problems we come across. A number of members felt that some sort of relationship with Iran was key to working out a more stable solution to the situation.

The second day’s discussion focused specifically on Iraq and was led by Ellen Laipson. She described how Iraq emerged in the 1950s and 1960s as a coherent country, as a society that was beginning to establish well formed institutions and had a high profile for development. But the combination of Saddam Hussein’s rule, war with Iran, and a decade of sanctions eroded that society. It was not apparent how much damage had been done to Iraqi institutions until after the 2003 invasion by the United States. Can one invent a new Iraq? The break-up of the country may not be inevitable, but putting it together is going to be extremely difficult. It is not possible to do an accurate assessment of the effectiveness of the current surge in Iraq. Some things are apparent—sectarian violence is down, but suicide bombings are up. The violent groups are moving around the country and now the Kurdish population is being targeted. In September, General Petraeus will provide the Congress and the President with a reassessment. This is going to be a difficult moment to reassess because the summer will still be in full swing and there is unlikely to be conclusive evidence of the surges’ success or failure. This is not a moment not ready for reconciliation. For different reasons the Kurds, Sunnis and the Shia are still grieving as a result of their suffering. There is no single Ba’athist voice capable or willing to apologize for past times. The Kurds are bitter because Saddam’s trial ended before his war crimes against the Kurds were discussed. There has been some improvement in the political process, but great structural problems continue. Iraq is experiencing both intra-Shia friction and some divisions. The first would be chaos, in which case the United States pulls out. Second, would be a Shia dictatorship which would see the further out-migration of Sunnis and the third would be a secular strong-man using coercive measures to assure the coherence of the country. A happier scenario would be slow political improvement and effectiveness of the government. The problem is Iraq is not homogeneous, and it is no longer America’s call as to what will happen there. U.S. policy, in reality, most likely means disengagement under the best possible circumstances. The United States is not even quite sure what type of Iraq it wants to leave behind. And yet the U.S. cannot abandon Iraq. The U.S. elite...
shares responsibility for what happens in Iraq and indeed throughout the Middle East. The U.S. is planning for an enormous presence in Iraq; the largest embassy in the world. But the question is what is this embassy going to be for? In the discussion there was some focus on how deglaciation would work. Disengagement must be over a period of years not weeks and months. Here some members felt that the U.S. should morph its role into a more international presence. To avoid the new embassy becoming an international institution to bring in others’ Iraq needs contractors, it needs schools built, its infrastructure, it needs humanitarian assistance for years to come and this framework. The new Secretary General of the UN, Ban Ki-Moon, has endorsed a plan for Iraq and at the recent meeting at Sharm el-Sheikh, Iraqi debt relief was promised. It remains to be seen whether the Bush administration will be prepared for such an international presence in Baghdad.

One participant suggested that the uniqueness of the Arab countries is that in many cases the political situation in the region. In Iraq the state is key. The problem is the state of Iraq has now been destroyed, and the spill-over from the destruction of Iraq will be far-reaching. The United States is tainted with the smell of defeat in the Middle East and East, and the United States can engage and help the government of Iraq. Security is the key. Iraqis complained that the U.S. has not given them the equipment, and hard choices will still have to be faced on the role of military. Here the U.S. has floundered. Iraqis have every right to be confused and angry. Due to the insecurity of the region, strong states rather than liberal states seem to be the order of the day. Some felt the U.S. had little to show for the huge investment in the Iraq war. One could see the chaos in the neighborhood. The Saudis, the Turks, the Jordanians all need to work with the U.S. to build some form of stability.

Another problem is that the United States must multilateralize in the region. It has to continue to work to keep Iraq in a responsible way. The U.S. also has to engage Iran, and it needs to reengage on the Arab-Israeli peace front and continue to fight the war in Afghanistan with the help of Pakistan. These tasks require simultaneous action and the question is does the United States have the talent and the will power to undertake these projects.

One unfortunate development is the perception in the Muslim world that the U.S. has declared war on Islam. These popular myths have to be dispelled. There had been some developments in sorting out Iraq’s complicated oil laws. The big breakthrough was the pressure put on the Kurds to compromise on the future of their own oil fields. In terms of long-term investment in Iraq’s oil sector, international oil companies are wary of getting involved at this point in time because of the security questions.

Overall, for many participants, the outlook looks bleak because the longer the United States bleeds in Iraq, the greater the domestic pressure for withdrawal. Some felt that if the U.S. had managed the affairs differently since 9/11 and used more humanitarian approaches to countries in the Middle East it might have gone a long way to mollify the United States comes to grips with failure it will not do the right things. Iraq distorts U.S. relations with the Islamic world. Al Qaeda is now a threat to the whole neighborhood. No one is going to step forward to take responsibility for the region unless the U.S. steps down. The problem is the United States has a tendency to rely too much on force when other methods may be more appropriate. So far America has committed over 2 trillion dollars to the crisis.

In the Congressional summaries, it was consensus that policy makers face a major dilemma in Iraq and that it is necessary to act responsibly. We simply cannot pack up and leave; that is not an alternative. Yes, it may have been a colossal mistake to go to Iraq and this has left behind deep anger and disappointment. The surge is a huge gamble. The best way to knock some reality into the Iraqis would be to withdraw troops but is there a responsible way to withdraw? If Petraeus in September says there has been no much change, then some felt the United States is going to leave. Others question whether the United States would leave under these circumstances. The Bush administration is going to make a decision to leave but not overnight. There is nothing to suggest that the current administration is going to change its course until large numbers of Republicans move against the president. For the next one and a half years this administration can continue with the current policy. But great powers should have the ability to say we were wrong.

We must set realistic goals about our future role in the region. We need to improve communications skills and manage the perception that our intentions in the region are not honorable. We need better intelligence and we must recognize that many of the issues are beyond our control. Some members reaffirmed their support for the general recommendations of the Iraq Study Group. Ultimately we have just over a year to prepare for 2009 and the reevaluation of policy. We should not lose sight of the fact that Afghanistan initially was handled much better than Iraq, and that Afghanistan is not going anywhere. We pointed out that when the United States went to war with Saddam in 1991, George H. W. Bush handled the Gulf War as a united operation and managed to get the rest of the world to pay for it. This has not happened in this case. We are isolated and our allies are few and far between; though no one, including key leaders in the region, wishes to see a speedy American withdrawal.

In an evening session Dr. Abdel Monem Said All baghdaded his statecraft for the Middle East in the context of the three wars that are affecting the region. First, there was the global war on terrorism that followed 9/11, secondly, the traditional regional wars in the Middle East, and thirdly, the current cold war in the Middle East. All in common for all three wars is that political Islam is involved. Islamic fundamentalists represent a major challenge to western civilization equivalent to that posed by fascism and communism in the 20th century. Radical Islam takes many forms, but one concept is that to have salvation the day after, you must have sacrifice today. Fascism and communism were a byproduct of the West but radical Islam comes from the Muslim countries themselves. Radical Islam is in competition with two other paradigms: the bureaucratic state and the democratic state, including globalization.

How does one challenge radical Islam? The United States has a number of objectives in the Middle East: oil supplies, security of Israel, sta-
bility of regimes, non-proliferation, and integrating the Middle East into the world order. However it has some major liabilities including cultural, demographic, social and legitimacy questions. The United States has huge assets with its $13 trillion GDP, thirty percent of the world’s total. It shares concerns about radicalism with Europe, Russia, China and India. Radical Islam does not offer the world much. Concerning the current conflict in the Middle East the U.S. has three options: it can commit or cut losses, it can engage or isolate the extremists or it can try to integrate the Middle East into the world or it can quarantine it. There are a number of things the United States must do accept the fact that the region was set on a new complex war; that this is a war about ideas about hearts and minds; that it is important not to mix history with strategy; that it is important to not go to it alone; and that there has to be a concert of power, and one has to engage liberal Islamists. Democracy is a condition. It is not about elections, it is about institutions. And it is necessary to build alliances even with one’s enemies.

In the brief discussion it was asked whether the Middle East elites believe that the U.S. commitment to the region is serious. The problem is that many believe the United States is on the way to getting out. Most bureaucrats in the region want the United States to stay, but they are not unhappy about seeing the U.S. get a bloody nose. The hope for more liberalization and a change away from authoritarianism has given way to the practical reality that the United States needs friends; the friends that it can get, not the friends it would prefer.

The third day’s discussion was led by George Perkovich, and focused on Iran’s nuclear options and what the United States can do about them. Iran has been masterful about making its case for nuclear power. All countries have nuclear rights, so it argues. This is a contest not between Iran and the international law, but between the United States and Iran. The United States has thousands of nuclear weapons, and Israel has nuclear weapons, but no one is talking about getting rid of them.

However, the real story is very different. Iran has violated well established rules. By signing the Non-Proliferation Treaty, Iran agreed to safeguard its nuclear operations and report its nuclear activities. Its non-compliance has been well-documented by the IAEA. There are five issues about Iran’s non-clarification of its nuclear program. First, the design of the P2 centrifuge from Pakistan has never been explained. Secondly, the contamination of quantities of enriched uranium has found and has never been explained. Documents on metal spheres that can only be used for bombs have been discovered. Its plutonium extraction plans have not been explained, and it has refused to provide access for transparency. For these reasons the issue was sent to the Security Council after three years negotiations with the European Union.

However, Iran has been lucky with its enemies. Iran has been asked to suspend its enrichment program so that the issues can be cleared up. Dr. Mohamad El Baradei, the Director General of the IAEA, has said that Iran has mastered enrichment, so lets make a deal so they limit the scale of their enrichment. This is a bad idea because it won’t end the crisis. The question is what then should the United States do? We can make a deal or we can draw a red line at weaponization and offer them security guarantees. We can stick with diplomacy, and if Iran admits it has committed transgressions let it be known that they will not be attacked.

In the discussion a number of recurring themes were addressed. It was noted that the 1968 Nuclear Non-Proliferation Treaty set up a double-standard by grandfatherring into the Treaty five existing nuclear powers (U.S., USSR, U.K., France, China). The agreement was that the existing powers would attempt to reduce their nuclear arsenals while all other signatures agreed not to weaponize. The problem is this standard has already been compromised with the reality that India, Pakistan, and Israel all have nuclear weapons and they are not signatories of the Non-Proliferation Treaty. There have been recent efforts to raise the profile on the problem of ultimately eliminating nuclear weapons as noted in the letter to the Wall Street Journal by Henry Kissinger, Sam Nunn, George Shultz and William Perry in January 2007.

Nevertheless despite the clear problem of double-standards the Iranians are in violation of the treaty commitments, and the question is to what sort of security guarantees they could be given to dissuade them from weaponizing? There was little optimism that this has much prospect in the short term. In the meantime, most participants agreed that sanctions rather than demands are now the preferred route to take but it was important that these sanctions be authorized by the United Nations. Although this means diluting them somewhat, the Iranians are clearly more impressed with international sanction, that includes the Russians, than the unilateral sanctions imposed by the U.S. or the EU.

Some participants argued that the nuclear issue was much broader than Iran misleading the IAEA with its activities. Some in the Arab world see great risks of an Iranian nuclear program, others see it as a balance to Israel. Some actually regard an Iranian bomb as an asset. If there is to be any effective diplomacy to dissuade Iran from a nuclear weapons program then there must be a more generous component, and the question leads to the question of establishing a nuclear free zone in the Middle East with all the concomitant problems with definition as with who should and should not be included. One participant argued that the debate in Iran is not really about the legalities of their right to develop nuclear weapons but about issues of power. One school believes Iran does not really need nuclear weapons and should therefore scrap its nuclear program. Others believe that yes, Iran does need nuclear energy but should not cross the threshold to build the bomb. A minority believed that they need a nuclear weapons capability for deterrence but are against the bomb at this point in time because it creates such a backlash in the international community and encourages proliferation in the region which does not help Iran. The final school of thought believes Iran should eject all IAEA inspectors and go for a weapons program. Fortunately at this point in time, those in favor of capabilities short of the bomb seem to be in the ascendance, although this could change.

Again the question of the inconsistency of U.S. nuclear policy was mentioned. In 2010 there will be a NPT review conference that will have to address a Middle East nuclear-free zone. This cannot be done unless the United States is prepared to talk to Israel about its own nuclear weapons program and possibly agree on some way for Israel to cut-off its production of nuclear material.

Concerning U.S. policy there was general consensus that the United States must work very closely with the F-5 to make sure that the UN Security Council Resolution 1747 was fully implemented. At the same time the U.S. must find a way to strengthen the international nuclear non-proliferation regime. Nuclear weapons are terror weapons. In this regard there was some criticism of the current agreement with India and suggestions that the administration should apply the lessons from what happened with South Africa, Libya, Argentina and Brazil, all of whom gave up their nuclear capabilities. Again there was an understanding that until the question of Israel’s bomb is addressed, the Iranians will always have a debating point in the international forum.

Part of the problem is that there are broader issues than nuclear weapons when it comes to U.S.-Iranian relations. The recent U.S.-Iran meeting on Iraq was encouraging and there could be a potential breakthrough on the Iraq front which could ease, in turn, the difficulties over the nuclear issue. What is required is a more concerted effort to engage with the Iranians and to better understand the security issues of other key players, particularly the Russians. We need to create pressures on Iran via the international community and should do whatever we can to help reformers in Iran.
rather than hurt them with policies that undermine rather than strengthen their capabilities.

Finally the United States should learn from its mishandling of the situation in Iraq when dealing with Iran. Nuclear non-proliferation should be a key element of American policy but this requires a much more transparent relationship with Iran and a better understanding of the complexities of its leadership. We need to trust but verify and be more explicit about cost-benefit analyses of what carrots and sticks would work with regard to pressure on Iran. In this regard declassifying more information on the Iranian program might be a step in the right direction.

The final day’s discussion was focused on Saudi Arabia and energy security in the Gulf. It was led by Henri Barkey who began by outlining the dimensions of the global market for oil, the continued unique position of Saudi Arabia and why the United States will have to be committed to the defense of the Persian Gulf for the foreseeable future. Even if American demand for Middle East oil slackens, the global oil market is so intertwined and fungible that any major upsurge in supply from the Gulf would affect the price of oil globally and therefore all major industrial powers continue to have a vested interest in assuring security of supply from all major production regions, particularly the Gulf. Markets are particularly tight with global expansion under way, particularly the growth of the Asian economies. But given the laws of supply and demand, there were to be a global recession or a major collapse of one of the key industrial economies then the price of oil would fall.

Saudi Arabia remains the most important oil producer given its capacity to increase production in a tight market. The capacity has been reduced in recent years but could be increased if, as planned, Saudi Arabia completes new production facilities in the coming years. Saudi Arabia will continue to depend on the U.S. for security. Thus the mutual dependency of the two countries will not be significantly changed even if Saudi Arabia diversifies its market and the U.S. reduces its imports.

In the discussion considerable attention was paid to U.S.-Saudi relations and why the Saudis perceive the United States Congress as a adversary. It was pointed out that 15 of the 19 perpetrators of the 9/11 attacks were Saudi citizens and this created a backlash in the United States. Prior to 9/11 the Saudi regime brought domestic peace by buying off fundamentalists. State to state relations, however, have improved in recent years and is now a critical mutual need to help each other. Saudis are concerned that the United States might not defend them in a crisis - they don’t want to lose our protection or our addiction to oil. The U.S.-Saudi relationship is very much a two way street. The vast amount of money the Saudis receive for their oil goes right back into the Western markets, including that of the United States. No country, nor China nor Saudi Arabia, has an interest in crashing the U.S. market because everyone is dependent on everyone else. In terms of defense, no other power can keep the sea-lanes open and defend against Iran. When it comes to terrorism there is no certainty the Saudis can protect their oil.

Our energy dependence and our search for more independence cannot be decoupled from the whole issue of climate change. If we assume climate change is real, and we adopt a world wide or regional carbon tax this dramatically reduces the demand for oil. Or if biofuel cooperation between the world farmers continues there are ways out of our current dependence on Saudi oil. The Saudis remain very nervous about the situation in Iraq and the rise of Iran and the Shia powers. It was suggested that we should not exaggerate the influence of Saudi Arabia, particularly since the Saudi per capita GDP is only half that of Slovenia’s. The problem with Saudi’s support for political Islam is that there is over a trillion dollars in private funds in Saudi Arabia, which is not accounted for—this worries everybody.

Looking at the global energy outlook what China and India do will have an enormous impact on the market. Both countries face major health problems due to the pollution that they create from burning coal to generate electricity. But this concern parallels their determination to continue to grow their economies to reduce domestic poverty. If China and India begin to shift from coal burning to oil and natural gas based power plants for electricity generation, the demand for Middle East energy will be even higher.

In the discussion of implications for U.S. policy it was self-evident that U.S. Middle East policy and energy policy were intertwined. The growing pressure on oil markets means the era of cheap oil is over. As the price goes up, new technologies will emerge, but at the same time we have to encourage economic development in the Middle East to dampen radicalism. It is important for the United States to realize that while there may be growing pressure to withdraw U.S. forces from Iraq, this is not the same as withdrawing them from the Middle East. For the foreseeable future we will remain present in there, but in the meantime much more has to be done to formulate a coherent and comprehensive energy policy that involves much more detailed legislation that focuses on issues as varied as clean coal to incentives for plug in hybrids and higher Corporate Average Fuel Economy (CAFE) standards. The list of things that Congress can do was to many members a no-brainer. We need to go with a carbon tax. In many areas the public opinion and NGOs are way ahead of the Congress and the Administration when it comes to energy issues especially concerning transportation. The United States government has permitted non-market forces to dictate transportation policy.

Perhaps the most important thing Congress can do in the coming eighteen months is to agree on a bipartisan basis on what specific issues to do with energy issues and policy in the Middle East should be addressed by presidential candidates in the 2008 campaign. We have lost a great deal of influence in the Middle East because for fifteen years we said we were the world’s only superpower, meanwhile the growth Islamic fundamentalism bloomed. Iraq has shaken the confidence of the American people and it is necessary now to reshape our future; presenting an agenda for the presidential candidates to address would be one way to begin the process of healing and restoration.
Shia-Sunni Rivalry: Implications for U.S. Policy Toward Radical Islam

Vali Nasr, Ph.D.
* Professor of International Politics
Tufts University

Since the start of the war in Iraq in 2003, Shia-Sunni conflict has emerged as a major factor in Middle East politics, radically changing the context for regional conflict and U.S. policy. Sectarian conflict began in Iraq but is no longer just limited to Iraq; it has expanded in scope to influence regional developments from Afghanistan to the Persian Gulf to Lebanon and the Arab-Israeli peace process, adding new complexity to ongoing and potential regional conflicts with far-reaching implications for U.S. interests.

In Iraq sectarian violence has undermined stability and thwarted the effort to build a viable state, and poses the greatest threat to the future of that country. In Lebanon following the war between Israel and Hezbollah in the summer of 2006 a sectarian rift opened between Shias on the one hand, and Sunnis and Christians on the other. That rift is deepening as Hezbollah seeks to unseat the Sunni-led government in Beirut. Hezbollah’s growing influence has elicited a sectarian reaction from Arab capitals as well as several jihadi websites. Lebanon and Iraq have in turn escalated tensions between Sunni-led Saudi-Arabia and Shia-led Iran. The competition between the two had in the past stoked sectarian conflict, and is doing so once again.

For the United States sectarianism is important for a number of reasons. First, it will determine the fate of Iraq. Second, it will play an important role in deciding regional alliances in the Middle East, impacting the Arab-Israeli issue, political and economic reform, and support for U.S. policies. Third, sectarianism is a radicalizing force which will impact regional stability and the war on terror. As they compete for power Shia and Sunni militias will inevitably gravitate toward more radical ideas to justify their actions. In the Arab world and Pakistan violent anti-Shiism is the domain of radical pro-Al Qaeda clerics, websites and armed groups. Among the Shias in Iraq sectarian violence has similarly shifted power to the radical forces. Finally, sectarianism is directly relevant to Arab-Iranian and U.S.-Iranian relations, and is in turn impacted by these relations. This brief will examine the importance of sectarianism to Middle East politics and how it will impact U.S. interests and policies.

Roots of the Sectarian Problem

Shias and Sunnis represent the oldest and most important sectarian divide in Islam, the origins of which go back to the seventh century to a dispute over succession to the Prophet Muhammad. Over time, the two sects developed their own distinct conception of Islamic teachings and practice which has given each sect its identity. Their theological disputes and political conflicts are akin to the history of Protestant-Catholic rivalry down to present times. Shias are a minority of 10-15 percent of the Muslim world, but constitute a sizable portion of those in the arc from Lebanon to Pakistan—around 150 million people. They account for about 90 percent
of Iranians, 70 percent of Bahrainis, 60-65 percent of Iraqis, around 40 percent of Lebanese, and a sizable portion of the people living in the Persian Gulf region, and 20 percent of Afghans and Pakistanis. However, despite their sizable numbers, outside Iran, Shiias had never enjoyed power.

The U.S. invasion and occupation of Iraq in 2003 was of symbolic importance to the Middle East. It ended minority Sunni rule in Iraq and empowered Shiias, and this in turn led to a Shia revival across the Middle East that as a cultural and political force will shape regional politics. Iraq encouraged the region's Shiias to demand greater rights and representation through elections, demand reform, and more direct confrontations with ruling regimes. These developments have also raised Iran's status as the region's largest Shia actor. It was with expectations of positive change that Shiias initially welcomed America's role in Iraq—the most important Shia spiritual leader, Grand Ayatollah Ali al-Sistani encouraged the Shia to embrace the political process introduced to Iraq by the United States as joining the newly established security forces—a process that was supported by Shia political forces in the region including a number of leading ayatollahs in Iran.

However, the shift in the sectarian balance of power met with Sunni resistance first in Iraq but increasingly in Arab capitals. The fall from power of Sunni in Iraq disenfranchised that community in Iraq, but also ended its hegemonic domination of regional politics. This has led to a backlash that is reflected in Sunni opposition to the Iraqi government, the ferocity of insurgent attacks since 2003, lack of support for U.S. policy along with anti-Shia statements in Arab capitals and their unwillingness to recognize or help the new Iraqi government, and a growing anti-Shia and anti-Iranian tenor of radical jihadi propaganda.

The insurgency that the United States has confronted since 2003 largely manifests the Sunni anger at loss of power in Baghdad and the marginalization that followed it. It draws on the resources of Sunni tribes, foreign fighters, moral and material support in the Arab world, radical ideologies, and the Ba'ath party and former Sunni officer corps to wage a campaign of violence against the U.S. occupation and also to present the Shia consolidation of power in the belief that a hasty U.S. departure will lead to a collapse of the current government and restoration of Sunni rule. Political attitudes that have animated Sunni resistance to the occupation have not changed since 2005, but the Shia attitudes have. That shift among Iraq's majority population is why the problem of the insurgency was overtaken by the violence of sectarian conflict.

For the first two years of the occupation the Shia showed great restraint in the face of insurgent attacks, heading Ayatollah Ali al-Sistani in February 2006 was a psychological blow to Iraqi Shiias. It threatened their sense of security and put to question the feasibility of reconciliation with Sunnis. It raised doubts about the U.S. ability to defeat the insurgency, whose violent capabilities and ferocious anti-Shiaism was undeniable—and weakened the call for exercising restraint, which was now seen as only emboldening the insurgency. Shia in February and March 2006.

The failure of U.S. and Iraqi forces to provide the same level of protection as the Mahdi Army only popularized the militia and its leader, whose gamble to withdraw and made the U.S. responsible for Shia safety has paid off. It is now clear that the U.S. will get cooperation from Shiias on the issue of militias only after it has shown gains in containing the insurgency. That could potentially require deployment of even more troops in Iraq.

In the meantime, corruption, mismanagement, and constitutional gridlock, and the resultant weakness of the central government and its security forces, and their inability to provide protection or basic services has led more Iraqi Shiias to look to local strongmen and militia leaders for their basic needs.

Broader Regional Implications

The change in Shia attitudes in Iraq has coincided with developments elsewhere in the region to make 2006 the fateful year, one in which the sectarianism that began in Iraq turned into a regional force. The summer war in Lebanon has divided that country along sectarian lines—as reactions to Hezbollah's role in the war and its ambitions have taken an increasingly sectarian tone, especially as Hezbollah's drive to topple the Lebanese government has been viewed as a Shia power play by Lebanon's other communities. The Lebanon war also marked the regionalization of sectarian tensions that was manifest in the war between Arab governments and a number of pro-Ahmadinejad extremist groups and websites to Hezbollah's campaign was unexpectedly sectarian, departing from the customary unity against Israel. The regional reaction to developments in Lebanon has pitted Iran against the traditional Sunni power brokers in the region—Egypt, Jordan, and Saudi Arabia—who now brazenly use sectarianism as the means to contain Iran.

What is evident in the aftermath of the Lebanese war is that the sectarian rivalries that first surfaced in Iraq now compete with the Arab-Israeli conflict to determine regional alliances and the political fortunes of Hezbollah and Iran. They would prefer to focus the region on the Arab-Israeli issue and to gain support as champions of the Palestinian cause. However, they have faced resistance in pursuing this agenda from regimes and extremists Sunni groups who see Iran and the sectarian issue as more important. In this environment the intensification of sectarian conflict in Iraq, and its growing regional dimension, has led Hezbollah and Iran to intensify their opposition against Israel in the hope of diverting attention from the divisive role that Iraq is playing in the region.

2006 also witnessed a dramatic turn in U.S.-Iran relations. In 2005 Iran elected a hard-line president, who instigated Iran's determination to pursue its nuclear program just as he escalated tensions with the United States and Israel.
This confident and provocative attitude is reflective of change in the strategic environment in the region, and Iran’s belief that it enjoys a stronger position than it did in 2005. Iran benefited from regime changes in Afghanistan and Iraq. The fall of the Taliban and the Saddam regime provided Iran with greater space to assert its influence in the region, and the destruction of the Iraqi army removed a significant stumbling block against Iranian ambition and influence in the Persian Gulf. The occupation of Iraq has depleted American power and prestige, making it harder to contain Iran, which has seized the opportunity to spread its wings. Rising Iranian clout has fed and been fed by the Shia revival that swept across the Middle East in the wake of the Iraq war. Iran today has hegemonic ambitions in the Persian Gulf and sees itself as a great-power, and it views nuclear capability as the means to attain that goal. What Iran seeks is not to export its revolution but to assert its influence. It wants the United States to accept Iran’s regional status, and it wants to see American interests and influence in the Central Asian, and in the Arabian Gulf, and also to recognize Iranian presence in Syria and Lebanon.

The specter of Iranian hegemony has been a source of concern for Iran’s neighbors. Saudi Arabia in particular has been alarmed at Iran’s gains in Iraq and in influence in Lebanon and over the Palestinian issue. Intensification of the rivalry between the two threatens regional stability, and more importantly, can fuel pro-Qa’eda extremism. The rivalry between the two in Afghanistan and South Asia in the 1980s and 1990s served as the context for the ongoing Islamic extremism that ultimately led to 9/11.

There is no doubt that managing Iran poses an important challenge to U.S. foreign policy, one that extends beyond the nuclear issue and the threat to Israel. The question before Washington has been whether to engage Iran to influence the course of its development or to militarily confront it. In the past four years, Iranian involvement in Iraq has been a problem for Washington—and today there is potential for conflict between the two in Iraq. Many, including the Iraq Study Group, have suggested that securing Iranian cooperation is important to stabilizing Iraq—and success in that arena may translate into success in other areas of interest. With the nuclear issue, Iran presented an opening in part because U.S. and Iranian interests in Iraq, even today, appear to converge on key issues: Iran does not want Iraq to fall or break up (fearing an independent Kurdish state), and a civil war in Iraq is worrisome to Tehran. Iran wants the Shia government in Baghdad to succeed, and for Shia to consolidate the gains that they have made since 2005. In fact, since 2005 Iran has supported the political process in Baghdad, constitution, and governments—that the United States introduced to Iraq. The possibility of engagement, despite the potential for positive benefits for Iraq, has so far remained remote, and now appears to be disappearing altogether.

It now appears that U.S. policy is gravitating toward confrontation with Iran, not only in Iraq but across the region. Washington appears to see rolling back Iranian influence as the key to resolving various regional problems. A policy that is focused on Iran rather than Iraq will escalate conflict in Iraq and across the Middle East, thereby deepening American involvement in the region with the potential for adversely impacting American interests.

This policy is reminiscent of the containment strategy of the 1980s and early 1990s when the United States rallied Iran’s neighbors to contain the spread of the Iranian revolution. However at that time, Iran was weaker, and containment of Iran was anchored in Iraq’s military capability and the Taliban and radical Sunni ideology’s ability to counter Shia Iran’s influence. But today the Iraqi military buffer is no longer there. The task of militarily confronting and containing Iran will fall on U.S. shoulders. Moreover, in 2001 it became evident that the cost of using Sunni extremism to contain Shia Iran was the rise of radical Sunni jihadi ideology, al-Qaeda, in 9/11.

Reverting to the old containment strategy today, given the current capability of Iran’s neighbors in the Middle East and the balance of power in the region, would mean a long-term American commitment to staying in the Persian Gulf and deploying to other arenas of conflict in an environment of growing radicalism.

The consequences of conflict with Iran will be grave for the region and U.S. interests. Conflict will radicalize and also strengthen the Iranian regime by rallying Iranians to the flag, and inflaming the public opinion across the Muslim world. Anti-Americanism and ideological radicalism have not been staples of popular politics in Iran for some time now. It has been the quest for democracy that has dominated Iranian political thinking, contrasting with the popular mood in the rest of the Middle East. That trend will likely be reversed in the advent of conflict.

The Iranian regime abandoned the goal of exporting its revolution to its Persian Gulf neighbors at the end of 1980s, and has since sought power and influence within the existing regional power structure. The Iranian economy has become closely tied to those of its neighbors, encouraging the clerical regime to support the regional order. As a result, Iran improved its relations with its Persian Gulf neighbors throughout the 1990s, and in particular normalized relations with Saudi Arabia. Iran supported the stabilization of Afghanistan in 2001 and the withdrawal of U.S. forces in Iraq during the early phase of the occupation. Conflict will radically change the direction that Iranian foreign policy has been following. The process of greater engagement of Iran with the region, and its inclusion in its political and economic structures that has characterized the past decade, will be reversed. As witnessed during the debacle in the arrest of British sailors in March 2007, Iran will likely become more dangerous to the U.S., Europe and its neighbors, a trend which the United States will be hard-pressed to control or reverse without escalating conflict even further and committing itself to a greater presence in the region.

Confrontation with Iran will likely worsen the situation in Iraq. The March 10, 2006 Neighborhood meeting in Baghdad only served to make it clear that the only two outside powers that matter in Iraq are the U.S. and Iran—and that without Iran, and especially in fighting Iran, the U.S. cannot bring stability to Iraq. The resulting instability will in turn unfold across a large expanse of territory from Afghanistan to the Persian Gulf, the Palestinian territories and Lebanon, as well as in various forms outside of the Middle East. It will inflame anti-Americanism in the Muslim world. The costs of such a conflict will far exceed what the United States confronts in the region today, in particular if the conflict leads to a war with Iran—a country that is vastly larger and more populous than Iraq. Conflict will also make Iran more determined to acquire WMD and to destabilize the Middle East. That will expand the scope and intensity of conflicts that impact U.S. interests, as well as reverse gains made so far in the war on terror. The U.S. is today dealing with a new Middle East in which the ongoing conflicts are interconnected in new ways, reflecting the sectarian reality that Iraq has produced. Failure to take stock of that has made success in Iraq near impossible; in the coming years it will likely complicate management of other regional issues as well.

Implications for Afghanistan and Pakistan

The impact of developments in the Middle East will likely influence another important arena of conflict: Afghanistan and Pakistan. Long before sectarian violence surfaced in Iraq it had deeply scarred Afghan and Pakistani societies. Throughout the 1980s and 1990s rivalry between Iran and Saudi Arabia—much as today—fed a bloody competition between pro-Qa’eda forces and the Taliban on the one side, and pro-Iranian militias on the other. That competition has resurfaced since 2006, in response to developments in Iraq. Violent attacks on Shia targets during religious festivals have escalated steadily since 2003. Sectoral tensions are returning to South Asia at a time of political instability. The Taliban, associated with Sunni extremism, are mounting a comeback which not only threatens
the Karzai government in Kabul but also the Shia communities that have supported it. In Pakistan, the Musharraf government is under pressure from a pro-democracy movement. Far from a bulwark against extremism, the Musharraf government has tolerated extremist groups and seminaries at home and has been the force behind the resurgence of the Taliban in Afghanistan. The weakening of the government will make Pakistan more susceptible to a rise of sectarianism which in turn increases the potential for sectarian violence. That violence will be most dangerous if it once again reflects regional power rivalry between Iran and Saudi Arabia. It is that rivalry that previously produced sectarian conflict in Afghanistan and Pakistan, is today behind the spread of sectarian tensions in the broader Middle East, and can once again return political instability and social tensions to Afghanistan and Pakistan.

Iraq: Strategic Choices for the United States

Ellen Laipson, M.A.
President and CEO
The Henry L. Stimson Center

Introduction

The political salience of what happens in Iraq cannot be overstated. It is and will be the national security preoccupation for at least one more presidential administration and is likely to affect, directly or indirectly, American options to engage on other international issues for at least the coming decade. In this group I will not attempt to interpret all of its political ramifications for the American political system—you know that reality far better than I.

I will start with the premise that both the cumulative toll of recent events and whatever happens next in Iraq have profound implications for the U.S. role in the world, and for the international system. We must also consider the implications of Iraq in shaping the careers of a new generation of soldiers, diplomats, journalists, and civilians. It will be the formative experience for large cohorts of foreign policy professionals, and will be the case study for future students of American national security policymaking. Congress' role will also be featured prominently in how we process the long-term consequences of Iraq.

As of spring 2007, Iraq is still in crisis. New security measures may be helping reduce levels of violence by some degrees, and the government of Iraq is beginning to coalesce on some internal procedural matters. For example, the hard work on reaching consensus on a petroleum law; improved efforts by Iraqi politicians in advancing the cause of reconciliation; the return of a fourth province, Maysan, to Iraqi control; and Iraq's role in convening its neighbors for a regional discussion are all signs of incremental progress by the national government. At the provincial level, there is more to report, on new commercial and cultural activity, and on the increased capacity of municipal and provincial level leaders to work together, often across sectarian divides.

But it is not at all clear that any of these developments is sufficient to rescue Iraq from its profound crisis. It may be too little in terms of scale and too late to change the psychology of the country. The horrific violence perpetrated by a small minority has created a climate of fear and uncertainty that has destroyed the fabric of a once proud and accomplished society. Iraq's society has lost cohesiveness, continues to hemorrhage its talent pool through migration, and those who remain are distracted from productive activity by the relentless insecurity and by the social and political pressures of rampant sectarianism and mistrust. The new political class, elected for a four-year term in December 2005, is more focused on establishing the legitimacy of new political parties and groupings than on reaching consensus and compromise over the critical national challenges.

It is a dangerous oversimplification to discuss Iraq today as if each Iraqi had only one key identity, either Sunni or Shia or Kurd. Iraqis continuously remind us that a large percentage
of the society (perhaps over 30%) is of mixed background, and some tribes have both Shia and Sunni branches, or have changed their sectarian affiliation over time. In addition to the internecine conflict that was common over the last century, the modern period also produced a secular nationalist elite that didn’t care about, and in some cases, barely knew, their sectarian roots. The people we most wanted to create the new, post-Saddam, democratic Iraq were not deeply focused on sectarian issues, yet the new political class that has emerged from the violence and the political process we created seems to focus heavily on these identity issues, in part because we created a political system that gave greater value to that aspect of identity.

It is hard to accept, but the new leaders of Iraq are not yet deeply committed to reconciliation; the Shia and Kurds are still focused on redressing the injustices of the Saddam Hussein period, while the Sunni community, not all of whom were beneficiaries of Saddam Hussein, are the new victims, mistrustful of power and looking for redress through violence or through legal remedy. So in the new politics of Iraq, no one yet sees himself as a winner, all are working from a defensive position, and none are ready for magnanimous gestures or compromise.

Alternative Futures for Iraq

There are three plausible scenarios for Iraq over the next three to five years; in the next twelve months, we may not know along which path it is headed.

- Iraq could collapse into chaos, with a more complete breakdown in security in Baghdad and beyond. The failure of the surge to bring new confidence to the capital could generate a burst of new Sunni-Shia violence, which would trigger the disintegration of the already fragile security services into sectarian actors. The foreign coalition forces could well be forced into rear bases, as they try to flee a situation they can no longer influence. In this scenario, we should expect at least several million Iraqis to flee to the borders of the country, in the hopes of escape.

- The Shia majority party leaders and institutions might abandon all pretense of democratic institution building, and decide instead that a Shia-majority rule would serve their interest. They could make it untenable for Sunnis in particular to continue to play their roles in the national parliament. A Sunni walkout would create a constitutional crisis that could be used by a strong Shia leader to force a new political arrangement. A power struggle among contending Shia factions could well ensue, but would still result in a Shia strongman emerging, and deeper alienation by Sunnis and, probably, by urban secular Shia. The Kurds would simply retreat to the north and lay low.

- Should either of the first two scenarios begin, regional and international forces might find themselves wishing for a strongman, a former military officer, to impose a law and order regime. Former Prime Minister Iyad Allawi, a secular Shia backed by the U.S., could be seen as a welcome alternative to chaos. He was criticized when in power in 2004 for having strongman tendencies; such attributes might have higher value as Iraq descends into chaos. Traditional Shia mistrusted him, but under worsening conditions, one can imagine more support for him or some other strongman figure from frightened segments of society who prefer a law and order regime to a weak democratic regime.

A less likely but happier outcome would be a gradual stabilization of the security situation, a continued evolution of new political institutions, and an emerging realization by Iraqis and Iraq’s neighbors that the time for settling scores is over. A de facto binational state, with a functioning autonomous Kurdish north, with special protections for the Sunni majority areas, and with a dominant Shia culture in Baghdad and the south is imaginable. It would require a change in mindset among the Shia majority and a willingness of some critical mass of Sunnis, including many of the insurgents, to cooperate with the new state. Such an outcome, not achievable over the next year or so, could gradually create conditions for more investment by the neighbors and more effective aid delivery by the great powers and the multi-lateral institutions. It cannot occur until the goal of reconciliation is embraced by a larger portion of the political elite, and until security forces are more effective in dealing with al-Qaeda in Iraq and the most extreme of the insurgent groups.

The U.S. Role

The United States is embedded in Iraq for the foreseeable future. Quick exits from a failed policy and a failing Iraq have emotional appeal but will probably be very hard to achieve, absent a catastrophic change in the situation. Given the nature of U.S. commitments and the investment already made in our political and military partnership with the Iraqi state, the next administration, of either party, will face the Iraq file in 2009, and will likely be working on ways to limit and downscale U.S. involvement there for the better part of the next presidential term.

Iraqis both want us to leave and desperately want us to stay. Across the political spectrum, Iraqis prefer to be free of foreign occupation, and moderate forces realize that their reliance on the U.S. forces is bad for their own legitimacy over time. In some respects, our ability to shape their political choices is already eroding. But Iraqis in responsible positions are deeply conscious of the capacity gaps, and believe that they or any semblance of elected government would not survive a quick departure of American forces. They see a frightening scenario of chaos and instability. It is also probably true that, should an American departure become an imminent reality, Iraq’s neighbors, including Iran, would worry about their own security and would expect us to act responsibly and not create an even greater regional calamity.

We also will have difficulty disengaging from the ambitious civilian infrastructure we have put in place. The new U.S. Embassy is scheduled to open in June 2007. It will house over 1,000 diplomats and support staff. At a cost of nearly $1 billion, it comprises 21 buildings on over 60 acres, several times the size of the UN headquarters compound in New York! Should U.S-Iraqi relations undergo a dramatic change and contraction, this absurd embassy compound will become the symbol of America’s disillusion. Imagining a more modest and normal relationship with Iraq, one wonders what can be done with such an exaggerated infrastructure for U.S. power and presence.

The binary proposition—we stay or we leave—therefore does not reflect the most likely or plausible roads forward. But there are degrees of engagement, and a new president and Congress could well determine that we need to lower the costs—human and financial—of a policy that has not produced its intended results. This would be true whether Iraq is muddling along as a weak democracy, or has reverted to a more authoritarian and more effective government. (If it has descended into total chaos, one assumes the U.S. would have left.)

- A smaller U.S. presence with a narrower security mission and a more modest political agenda could well be an attractive policy choice. The security mandate might be limited to training, and no longer include combat operations. The political agenda might be scaled back to a more normal diplomatic relationship, albeit with active cultural and economic programming, but there could be a conscious decision to let the UN or other nations take the lead in support for elections and other issues where we are currently the key player.

- It is possible that the logic of the "surge" will be sustained, and that the United States will decide to maintain a robust presence for the foreseeable future, until the job is done. This option has no guarantee of success and could further polarize
Iraqi society. It would also have enormous consequences for the U.S. ability to engage militarily or financially elsewhere, and would likely create long-term tensions in U.S. politics and in U.S. relations with the international system.

Regional Dynamics

This year, Iraq's neighbors appear to be shifting their attitudes and behavior, mostly but not entirely in a positive direction. The regional gathering in Baghdad in March was an important step in helping Iraq reassert its role in the region, not treated as a ward of the international community but as a sovereign actor with national interests to defend and protect. Iraq has begun to articulate its needs and expectations vis-a-vis its neighbors, and there are more frequent bilateral meetings and exchanges of interior ministers, border police, and other functional officials. To be sure, the neighbors have a new incentive to be attentive to Iraq they deeply worry about the out-migration of Iraqis, and the UN High Commissioner for Refugees is now seized with a crisis related to the unwillingness of Iraq's neighbors to accept refugees and asylum seekers.

From outside, the region, it is difficult to fully grasp how Iraq's relations with its fellow Arabs remain abnormally and, how deep the mutual mistrust runs. We need to be more mindful of the fact that the Iraqis who are now in power have little standing in the highly personalized political relationships of the region, even though some of them are known in their homes of exile, including Abu Dhabi, Amman and Damascus. Arab regimes are also uncomfortable with the level of democratization, flawed as it may be, that has occurred in Iraq, and do not want to celebrate Iraq as a new model. These Iraqis also hold the Arab establishment in contempt for the long years that it acquiesced to Saddam's cruel rule, and now feel the political gap that exists between the traditional Arab states and the new Iraq. In fact, Iraq has done more to treat Iraq as a normal state, with visits, trade, investment, etc., than any of Iraq's fellow Arabs. This understanding of Iran's constructive role, of course, needs to be viewed along with the dark aspects of Iranian involvement, with elements of that state working to prolong the violence and creating links to destructive elements in Iraqi society, who, could, now or later, undermine the very state that Iran professes to support.

So long as the U.S. is the largest player in Iraq, the UN and World Bank, as well as regional organizations, will play only supporting roles. They are all wary of establishing a large presence due to the terrible security environment, and cannot even conduct due diligence on civil society actors and programs they may want to support, leading to a regrettable underfunding of those activities that could make an important contribution to stabilization and reconciliation. The Arab League made one attempt to establish a presence in Iraq, and a courageous Arab diplomat, Mohibhar Lamami, spent a difficult year there, meeting with all parties and promoting reconciliation, but he eventually resigned due to his frustration over security and the lack of support from the Arab League member states.

Dealing with U.S. Failure

If we focus on the horizon and imagine a catastrophic collapse of Iraq and a humiliating departure of all Americans from the country, it seems likely that U.S. influence and presence in the region would be dealt a severe blow. Some believe that we could regroup and enhance our activities in neighboring Jordan, the small Gulf states, etc. Even if this were to occur because those states would judge that a U.S. presence would help manage the spillover effects of Iraq's collapse, such an American approach cannot be seen as an acceptable fall-back position. It would be interpreted in the region and beyond as a sorry state of affairs for the superpower, and could well lead to further disenchantment from the region.

It is true that the U.S. has other interests in the region to protect. In the absence of Iraq as the organizing principle of our regional strategy, we might invest more in Arab-Israeli issues, and would certainly try to maintain as much normality as possible in key Arab capitals. But should Iraqis suffer from a humanitarian crisis due to the U.S. departure, we have to imagine a further erosion in American credibility and influence, and a possible rise in violence and anti-Americanism in the region. U.S. diplomats and civil society actors will have their work cut out for them, working to restore good will and maintain relationships.

What if it gets better?

At the five to ten year horizon there is also a possibility that Iraq will stabilize and will achieve some consolidation of its democratic gains. It is certainly within reason to contemplate that the insurgency could have spent itself, and Iraq could enjoy relative domestic peace. Iraq security forces could achieve new levels of competence, with the large infusion of American help, and the politicians could learn to work more effectively to achieve national goals. If we factor in the prospect of new oil finds, Iraq could work back to a level of regional strength, measured in national wealth and educational attainment.

Iraq could be a strong regional actor again, balancing its Arab identity with its special ties to Iran, serving as a bridge between the Arab world and a rising Iran. Iraq may also increasingly see itself as a multicultural nation, with Kurdish autonomy and some Shia identifying with Persian culture, within a new Iraqi national identity. Iraq could make progress along these lines that would distinguish it from more homogeneous Arab states. To maximize its regional place, it would also need to be proactive vis-a-vis Turkey, ensuring that Kurdish autonomy does not pose a threat to its northern neighbor.

Such an outcome would be a balm for those Americans with long enough memories to take credit for the achievement. But by then, Iraq will almost surely be free of overt American influence. Even if Iraq governments in the future pay their respects to the U.S. role in ousting Saddam Hussein, one should have no illusions that a successful Iraq will be a close and predictable partner of American foreign policy. We will need to let go of any expectations that Iraq will do our bidding, but a strong Iraq protecting its territory and managing its key relationship with Iran is surely not the worst outcome from a U.S. interests perspective.
The Iranian Nuclear Challenge: Five Options

George Perkovich, Ph.D.
Vice President for Studies
Director, Nonproliferation Program
Carnegie Endowment for International Peace

Since the early 1990s, the U.S. and a few other states have been highly concerned that Iran's revived nuclear program was intended, at least in part, to acquire the capability to make nuclear weapons. In 2003, acting on tips, the International Atomic Energy Agency began an intensive investigation that has uncovered a long list of Iranian violations of obligations to report nuclear transactions and activities. These violations of safeguard agreements centered around Iran's quest for equipment and materials to enable it to enrich uranium and separate plutonium, as well as experiments associated with other materials that could be essential in making nuclear weapons, such as polonium. In each instance, Iran has argued that the undeclared activity, while violating Iran's reporting obligations, was for peaceful purposes, and therefore not a core violation of the Nuclear Nonproliferation Treaty.

The IAEA's investigators also discovered activities that point to the involvement of military institutions, which, if proved, would violate Iran's core NPT obligation to use nuclear energy solely for peaceful purposes. IAEA's discovery of a document detailing how to manufacture metallic uranium spheres, who's only known purpose is in nuclear weapons, buttresses suppositions that Iran has done more than violate its safeguards agreement.

Iranian protagonists emphasize that the Agency has reported "there is no evidence that the previously undeclared nuclear material and activities...were related to a nuclear weapons program." (IAEA Report, November 2003) But it is equally important (and often forgotten) that the Agency "remains unable to verify...the peaceful nature of Iran's nuclear program," in the words of the August 31, 2006 Report of the Director General.

Given the gravity of Iran's non-compliant activities, and Iran's ongoing inability or unwillingness to provide information for the IAEA to resolve doubts that all of Iran's activities have been exclusively for peaceful purposes, the United States, European states, Japan, Australia, Canada and others have insisted that Iran should suspend all activities related to enriching uranium or separating plutonium until confidence in Iran's intentions can be restored. Following nearly one year of Iranian defiance of IAEA demands, the UN Security Council embraced this demand in its first resolution (1696) in July 2006. Iran has continued not to comply either with IAEA requests for cooperation and transparency or with legally binding Security Council demands, so the Council has adopted two subsequent sanctions resolutions.

This dispute has many dimensions. Most broadly, "the West" fears Iran's intentions and activities related to Israel, regional stability (Lebanon, the Palestinian-Israeli conflict, Iraq), terrorism, and human rights (of particular concern to Europe). For its part, the Iranian government is determined to maintain its revolu-
tionary identity, bolster nationalism, defy what it regards as American neocolonialism, and win acknowledgement as the most powerful and advanced state in the Persian Gulf and broader Middle East.

The nuclear dispute centers on Iran's insistence that it will never accept limitations on its "right" to enrich uranium as part of its general right to nuclear energy. The U.S., the EU-3 (France, Germany and the United Kingdom), Japan, Canada and a few others insist that whether or not any state has a specific "right" to enrich uranium (or separate plutonium), Iran must agree not to exercise that right at least until the IAEA is able to resolve all outstanding unclarities and past and future activities have no military purposes. Given Iran's record of noncompliance, its refusal to recognize Israel's existence, and its general undermining of regional stability, the U.S., EU-3 and others also demand that Iran not resume activities related to production of fissile materials until general confidence has been established in Iran's peaceful intentions.

The UN Security Council, most clearly in the February 2007 Resolution 1747, implicitly recognizes that Iran will need to receive positive inducements to accept ongoing suspension of its perceived "right" to produce nuclear fuel. Therefore the Council has now stood behind a range of positive incentives in the nuclear area, trade, high technology, and regional security, which are recorded in an Annex to 1747.

Many observers—especially in developing countries and among American critics of the Bush Administration—argue that Iran should not be required to give up this alleged "right" to enrich uranium. Or, because Iran will not agree to forego enrichment, we should stop demanding it. Indeed, Iranian politicians, fueled by the desire to resist what is portrayed as Washington's desire to retard Iran's technological advancement, have made the "right" to enrich a core issue of Iranian nationalism. The most that "moderate" Iranians will accept is an agreement to limit the scale of their enrichment program, and to conduct it with excep-

Some say that Iran would agree to have an international consortium operate its enrichment program in conjunction with Iranians.

Proponents of pilot-scale enrichment as the least-bad option assume that Iran does not and will not have secret facilities to conduct enrichment beyond the declared pilot facility that would be heavily monitored. Iran's failure after three years to give the IAEA an adequate explanation of what happened with the advanced centrifuge designs that Iran purchased from illicit Pakistani brokers indicates that undeclared actors and facilities have operated in the nuclear program, at least in the past. Still, proponents of the pilot-scale option argue plausibly that there is no proof that Iran now has secret facilities.

Intrusive inspections would deter any future effort to use secret facilities to apply the knowledge gained in the pilot-scale plant.

But an internationally endorsed pilot-scale plant would reduce the oddness and unorthodoxy of its activities. If inspectors or spies detect evidence of suspicious enrichment-related activity, Iran can argue that the legitimate plant explains it. When no enrichment is allowed, any evidence is decisive; when some enrichment is allowed, all evidence may be ambiguous.

Iran's potential to break out of the nonproliferation treaty and move full-speed to building nuclear weapons would grow greatly once it has mastered enrichment technology. Again, proponents of the pilot-scale fallback recognize this; they just think there is no better alternative.

Ultimately, there is little assurance that the pilot-scale alternative would do more than postpone the hard dilemmas and dangers posed by Iran's nuclear ambitions. Iran has behaved according to a very clear logic since its major nonproliferation violations were detected in 2002. Iran's chief nuclear negotiator from 2003 through 2005, Hasan Rowhani, has explained that Iran's strategy was to suspend only those activities that it was not ready to undertake. Once the engineers were prepared to take a

new step in acquiring the capability to produce fissile materials, they took it and essentially dared the international community to stop them. This happened in 2004, in August 2005 with the restarting of the uranium conversion facility at Isfahan, and in January 2006 with the end of suspension of uranium enrichment.

Iran's behavior and articulated strategy offer little reassurance that once it has mastered pilot-scale enrichment it would not seek to do more, and would not break any agreement to the contrary. A new crisis would then emerge, with Iran much closer to having the capability to make bomb fuel than it is today. There is no evidence that Iranian leaders are prepared to make a strategic decision not to acquire the capability to make nuclear weapons. The pilot-scale option enables Tehran to avoid this decision and proceed as it wishes, breaking and renegotiating constraints at each stage when Iran's technicians are ready to do so.

If the international community tolerates Iran's continued enrichment activities without first hearing that the IAEA has finally received the information it needs from Iran in order to resolve the outstanding doubts that its program has been exclusively peaceful, Tehran would have no incentive to close its non-compliance file or otherwise build confidence over a meaningful period of time that it poses no threat to its neighbors.

Finally, if Iran continues to enrich uranium without having resolved the issues related to its noncompliance it would be absurd for the European Union, the United States and anyone else to keep on the table the offers they have made to augment nuclear cooperation, trade, and political reconciliation with Tehran. These offers should be taken off the table if and when Iran has mastered operations of a centrifuge cascade.

Many of those who favor the "limited" enrichment option see it as the least bad option compared to the other two purportedly favored by the United States: military attacks and/or U.S.-led regime change in Iran. (The Bush Administration cannot get a fair hearing of its policies, due to the Iraq experience and other policies pursued mostly in the first term).

Proponents and opponents of a military campaign do not differ much in their assessments of the great ill effects and costs that would ensue. Everyone acknowledges the real limitations of intelligence on what to hit and how to measure success. Everyone believes that U.S. and/or Israeli attacks would inflame Iranian nationalism and support of the government, at least in the near term, and certainly would not engender more benign attitudes toward the U.S. and/or Israel. A wider-scale bombing campaign against Revolutionary Guard and other institutions associated with state repression would make the impression of intelligence on particular nuclear installations seem less important, but many more people would be harmed, further undermining the legitimacy, and therefore the ultimate political outcome of such a war in the eyes of Iranians, the international community and many Americans.

The main difference between proponents and opponents of military attacks is the degree and nature of risk they are prepared to run. Proponents of an attack have almost zero tolerance for the risk of living with an Iran that could build nuclear weapons; they have high tolerance for the risks of a war that would in no way guarantee destruction of Iran's nuclear capabilities. Opponents believe the risks of an Iran with nuclear weapons capability can be made tolerably low by strategies of containment and deterrence, and these risks will not be as great as those unleashed by launching war against Iran.

No way exists to forecast conclusively which side is correct in their assessments of military options. The Washington foreign policy establishment gives the impression that a large majority believes military action against Iran is not worth the risk. A small minority believes the gamble should be made. All say that this is an issue that President Bush will personally drive and only after all other options have been truly exhausted.
Regarding regime change, clearly the Iranian people and the world would be much better off if a more democratic, just, efficient, and internationalist government reigned in Iran. A few scholars, journalists and officials in the United States argue that the U.S. (and others) can and should hasten the fall of the clerical regime in Iran and that such a strategy is the best option for dealing with the Iranian nuclear danger. (I am not aware of any non-Americans who think this is a viable strategy.) Some proponents of regime change concede that a successor regime in Iran might refuse to abandon uranium enrichment (or nuclear weapons), but they argue that unlike the non-clerical nature of such a regime would alleviate the nuclear threat.

The potency of the regime-change argument declines with each day of additional trouble in Iraq. If Iraq is what happens when the U.S. forces regime change, then the U.S. should get a different strategy, in the view of most Iranian and Washington observers today. Still, it is worthwhile to highlight some general problems with this approach.

Peaceful regime change cannot be relied upon to produce new leaders quickly enough to turn off nuclear weapons acquisition programs. Generally, it takes countries less time to acquire the capabilities to build nuclear weapons than to reform governments and implement genuine democracy. In Iran, for example, even democrats do not foresee major political reform happening this decade.

Eliminating non-democratic regimes can create its own great dangers. Iraq is the most recent example and the only case where regime change was executed explicitly as a nonproliferation measure. Jack Snyder and Edward D. Mansfield have documented that governmental transitions often lead to military conflict. Toppling the government of Iran would unleash intelligence services, morality enforcers, Revolutionary Guards, and the violent Mujahedin-Khalq underground opposition into bloody conflict offering no confidence that peaceful liberal elements of Iranian society would prevail.

Rather than solve the proliferation problem, a regime change strategy intensifies hostile regimes' interests in deterring U.S. power projection. Governments such as North Korea and Iran that fear the U.S. may attack or otherwise seek to topple them are tempted to conclude that acquiring nuclear weapons is necessary in order to deter Washington.

Even if the U.S. and other outside actors could speed the fall of the clerical government in Iran (highly unlikely), and a benign government respectful of human rights replaced it (unknowable), the new government could insist on retaining an indigenous fuel-cycle program. Iran's neighbors, particularly Egypt, Saudi Arabia and Turkey, would evaluate the Iranian nation's capabilities more than a new regime's intentions. Regimes come and go, but nuclear capabilities tend to persist—this is not to deny that containing further proliferation would be easier with a less militant Iranian government.

The prospect that the United States might pursue a regime change strategy also undermines the preferred Security Council diplomatic strategy. Russia and China, for their own reasons, dislike Washington's ambition to topple anti-Western governments and install democracies.

Given the major liabilities of military strikes, imposed regime change and the limited-enrichment option, what are better alternative strategies? One is to focus on tough-but-magnanimous diplomacy. The other, which could be pursued simultaneously, is to buttress international and global determination and capacity to deter and contain Iran should it reject a fair nuclear deal.

UN sanctions—which must be distinguished from unilateral American sanctions—have had a greater-than-anticipated effect in stimulating Iranian debate. The sanctions agreed thus far are limited to blocking international cooperation with Iran on nuclear fuel-cycle and delivery system-related activities, barring travel of specific Iranian individuals involved in these programs, freezing financial assets and resources of designated entities and individuals. But perhaps more important, the UN sanctions authority gave states the political cover with their own populations and Iran to take additional steps to withhold investment, export credits, and other forms of commerce with Iran. This gave more impetus to the U.S.-led effort to induce private financial institutions to withdraw from projects in Iran in order to avoid legal or reputational costs in light of UN resolutions on terrorism and proliferation, [1373 and 1540]. These direct and indirect economic sanctions, and the prospects of more to follow, have prompted renewed debate in Iran over the costs and benefits of defying the UN and the IAEA. Without such debate, there is no chance to persuade Iranian leaders to end their march of defiance and comply with UN and IAEA demands.

Economic and political pressure can and should continue to be exerted against Iran's vulnerabilities. Iran cannot grow and enjoy its natural potential as the major economic and political power in the Persian Gulf without significant international investment and access to technology. The majority of Iranians also want political acceptance as a state that will not threaten the stability and security of their neighbors. Iran's most talented citizens and entrepreneurs know this and resent being treated as pariahs, even if the Revolutionary Guards and other powerful elements in the polity disapprove of this international acquisitiveness. These militant factions, represented most visibly by President Ahmadinejad, have invited the sanctions and expressed weariness of the UN Security Council and their neighbors. U.S. and other international policy makers must take care to make the international community fear Iranian intentions and behavior more than they fear U.S. intentions and behavior.

Diplomacy also should better highlight the benefits that UN Security Council members are prepared to guarantee if Iran complies with its demands, most importantly, to suspend uranium enrichment activities. The Security Council will "reaffirm Iran's right to develop nuclear energy for peaceful purposes...and commit to support actively the building of new light water reactors in Iran through international joint projects." It will "give legally binding, multilateral fuel assurances to Iran." The Council hints it would accept an eventual Iranian resumption of enrichment after "confirmation by the IAEA that all outstanding issues and concerns reported by it, including those activities which could have a military nuclear dimension, have been resolved." The Council supports a new conference to promote dialogue and cooperation on regional security issues, as Iranian officials have urged. It proposes a range of cooperative efforts in trade, investment, civil aviation, telecommunications, high technology and agriculture. All of this could be further specified and improved through negotiation, of course.

The Security Council also could help resolve a generally overlooked problem at the heart of the ongoing nuclear standoff. Iran cannot come into compliance with its IAEA safeguards agreement and, now, UN Security Council resolutions as long as core questions about its past nuclear activities are unresolved. Key among these are activities mentioned above which may have a military dimension, contravening Iran's core obligation under Article II of the NPT. It is highly possible that Iran cannot resolve these issues without admitting that the highlighted activities were in fact related to non-peaceful applications of nuclear energy and/or conducted by military organizations. To acknowledge this would be to admit that Iran had violated Article II of the NPT. Iranian leaders would not be paranoid to fear that such an admission would invite severe reprisals by the U.S., if not others. The public record gives no indication that U.S. officials and Iran's P5 (five permanent members of the UN Security Council) and IAEA interlocutors have reassuring Iranians that if they provide the information necessary to resolve outstanding questions, and agree to an extensive period of restorative confidence-building during which Iran would not conduct enrichment and reprocessing-related activities that are inherently proliferation-sensitive, Iran will not be penalized further for having violated the NPT. Iran should be informed that such a guar-
antee would be contained in a Security Council Resolution closing the nuclear case. The Security Council did this in the case of Libya.

Finally, prudence warrants taking measures now to deter and contain Iran from overt or covert action to foment violence in neighboring states, including Israel. The first step is to convince Iran’s constitutional leaders that their sovereignty and security will not be threatened if they desist from supporting or conducting violence outside their borders. The Iranian regime must know that it does not need nuclear weapons or a proxy war for its survival; its survival is best guaranteed by not fighting. It also must be shown that nuclear weapons would not maximize its regional influence, but, on the contrary, would bring about containment and counter-balancing.

As long as Iran is developing ballistic missiles configured to carry nuclear weapons, the U.S. and Iran’s neighbors (and perhaps NATO) are justified in deploying theater ballistic missile defenses. The U.S. should develop plans and capabilities for air strikes to destroy Iranian missiles on the ground if Iran ever threatens to enter conflicts involving U.S. friends.

NATO, too, can play a role in moderating Iranian behavior and bolstering the security of its neighbors. Most importantly, NATO should reaffirm its commitments to protect Turkey’s security by all means.

Iranian leaders wish to perpetuate their rule, not sacrifice it. Since their illicit nuclear activities were discovered in 2002 they have acted cautiously when the major powers stood resolutely together. When resistance has been weak, Iran has acted aggressively. It is not too early to build a framework for deterring Iran from acting outside its borders. Closer transatlantic cooperation in detailing a deterrence and containment strategy need not convey lack of commitment to stopping Iran’s acquisition of nuclear-weapon fuel-making capability; rather it would enhance this strategy.

Saudi Arabia, the U.S. and Energy Security

Henri J. Barkey, Ph.D.
Cohen Professor of International Relations
Lehigh University

Oil is one commodity whose market can truly be called global. Every barrel produced counts and every consumer is equally affected by fluctuations in its supply irrespective of its source of origin. Concerns about global warming and high oil prices not withstanding, the globe’s appetite for oil is unlikely to diminish in the foreseeable future but rather increase as the growth rates of emerging market economies accelerate. Therefore, the Persian Gulf, with its enormous production capacity and, more importantly, with its proven reserves of oil, will continue to act as the heart of the global economy.

The current energy picture:

• In 2006, the U.S. consumed 20 million barrels a day (b/d) (28.8% of total world consumption), of which 13.8 million b/d were imported. The cost of oil imports for 2006 was $243 billion.

• The transportation sector accounts for two-thirds of the U.S. oil consumption. There are currently very few alternatives to oil in this sector.

• World oil consumption increased by 3.5 percent in 2004 and 1.3 percent in 2005, mostly driven by Chinese and Indian demand, although China’s sudden surge in demand has, perhaps temporarily, slowed down. Down the road, as the Chinese and Indian economies become more middle class, the pressure on automobile ownership is likely to grow dramatically and so will these countries’ appetite for imported oil.

• The good news is that the current debate on global warming is forcing many, especially in the advanced industrialized world, to rethink many of their consumption habits and patterns. This is likely to spur new research and conservation.

• The bad news, however, is that in the U.S., in particular, most of the dramatic improvements in conservation were implemented after the first and second oil shocks in the 1970s. Included in these was the conversion of home heating from oil to natural gas. This, together with the fact that transportation swallows most of the oil demand, means the next steps in reducing demand will be dependent on two factors: government actions (significantly increasing Corporate Average Fuel Economy—CAFE—standards for example) or major technological breakthroughs.

• With oil supply and demand at a perilous balance, that is, with little spare capacity available, world markets are very volatile and the current oil price reflects a hefty “risk” premium. This fear factor is amplified by the openness of markets to speculation. Any whiff of crisis can cause sudden price fluctuations as we saw recently with the Iranian capture of the British
Navy personnel. Every time such an event occurs, producers laugh all the way to the bank with their extra profits.

- In 2005, the Middle East accounted for a disproportionate share of world oil reserves. Almost 62 percent of proven reserves are in the Middle East; Saudi Arabia alone accounts for 22 percent of all of the world's proven reserves. Overall OPEC reserves represent 75 percent of the world total (by comparison, the U.S. accounts for only 2.4 percent). The rate of production in non-Middle Eastern countries far exceeds their relative share of reserves. For instance, if the Saudis account for 22 percent of world reserves, their production only amounts to 13.5 percent of world production; comparable figures for the U.S. are 2.4 percent and 8 percent, respectively. Therefore, barring any major discoveries, the reserve picture in the medium term is likely to change further in favor of countries such as Saudi Arabia and other Persian Gulf countries.

- Current Saudi production capacity is 10.5 million barrels a day. The Saudis will be investing $18 billion to increase production capacity to 12.5 m bd by the end of 2009. Saudi reserves consist of 260 billion barrels of which 2/3 is considered light or extra light (i.e., high quality).

- Currently one big unknown is Iraq, Saddam Hussein's policies, wars and the sanctions regime prevented exploration activities. A recent study from IHS, a private consultancy, estimates that Iraq has much greater reserves that can be cheaply exploit-
ed, including in the Sunni Anbar province.

Persian Gulf Security and the United States

In the medium term, the importance of the Persian Gulf and especially of Saudi Arabia is going to increase as the world continues, pushed by China and India, to consume ever-increasing quantities of oil. If we also introduce two unstable factors into this picture, Iran and Iraq, we see that dependence on a few producers can only increase. Iraq, because of the conflict there, has not been able to invest in its oil exploration and drilling operations; and future prospects for the resumption of orderly exports from pipelines in the north in particular is very much at the mercy of the insurgency. Iran, mostly as a result of U.S.-sponsored sanctions that make it extremely difficult for Tehran to find foreign investors and also because of the mismanagement of its fields, is facing difficult times ahead maintaining exports. Domestic demand in Iran has also increased putting added pressure on exports.

The volatility of oil markets is directly related to supply insecurities. However, this insecurity is not just driven by events in Iran and Iraq. Oil workers in Nigeria have been routinely attacked, President Chavez in Venezuela is prone to erratic decision making, the Persian Gulf itself is under constant threat from al-Qaida or subsidiary organizations. A cursory look at the oil producing countries shows that with the exception of advanced western states such as Norway and Canada, most exporters suffer from a lack of political institutionalization, personalistic power structures, instability, corruption and mismanagement of the economy.

The recent increase in the price of petroleum has led once again to necessary transfers of foreign exchange resources to the producers, which has not necessarily brought new stability. This said, the evidence shows that some countries, especially GCC (Gulf Cooperative Council) members, have made an effort not to repeat the disastrous spending policies that accompanied previous spikes in the price of oil. They have done a better job of absorbing the inflows of revenues; they have diversified their investment portfolios and for some, like Dubai, the extra revenues have helped them speed up long-planned transformations. On the other side of the Atlantic, extra revenues have helped Chavez create more mischief and waste more resources.

Saudi and the Oil Market

Elites in Saudi Arabia are far more concerned with regime survival than anything else. To this end, oil and religion constitute the two pillars of the Saudi regime. Oil allows the Saudi regime to construct a domestic bargain with its people; provide the population with all of its needs. In exchange for which there will be no demand for accountability. In other words, no taxes, therefore no need for representation. Religion and, in particular, attachment to Wahhabism, provides the royal family with legitimacy and protects it from domestic criticism. Both of these pillars are designed to buy domestic peace.

Buying domestic peace with petrodollar-funded subsidies is always an easier policy to maintain when the price of oil is high. Nonetheless, even when the price of oil could not sustain this domestic bargain, the Saudi government indelibly itself, to the tune of $164 billion, to keep up its end of the bargain. The huge surpluses accumulated by the Saudis since 2005 are likely to be used to reinforce their domestic social compact, buy off disgruntled elements who are alienated by the war in Iraq and also delay any kind of serious economic and political reforms the regime may have contemplated. The emergence of homegrown al-Qaida cells is a worrisome development even if they do not in the medium term threaten the survival of the regime. Still, this regime has proven to be far more resilient than its detractors have.

Saudi Arabia is a status quo country by excellence. Support for Saddam Hussein's war against Iran, or its export of the Wahhabi ideology, has always been conceived for the maintenance of the status quo and the search for domestic peace. Some aspects of this policy have come back to haunt the Saudis.

Saudi oil policy exhibits the same level of defensiveness and caution. The lessons of the two oil price shocks in 1973 and 1979, which pushed Western economies into a recession and the developing ones almost into a depression, were quickly learned by Riyadh. In the early 1980s—as a result of the recessions, conservation efforts, and new drilling and adjustments—demand for oil diminished, causing producers to make up for price declines by over producing and, ironically, driving prices even lower. In the nineties, the Saudis conceived a delicate balance designed to maintain the price of oil as high as the market would bear without provoking massive efforts at conservation or negatively affecting the world economy. They had learned the hard way not to kill the goose that lays the golden egg.

The good news is that current price hikes—oil reached a maximum of almost $80 a barrel in 2006, still shy of the 1980 peak—did not send the international economy, which is far more sophisticated, integrated and versatile than 30 years ago, into a tailspin. The bad news, however, is that as a result Saudi Arabia has discovered that the world economy can live with a much higher base price for oil. Therefore, compared with a base price of just below $30 before the current round of price increases in 2005, we should not expect oil prices to decline to less than $50 a barrel anytime soon.

How secure are Saudi oil facilities? The two threats to Saudi production facilities come from Shites in the oil producing region and from al-Qaida. The regime has taken steps to improve its relations with the Shia; and al-Qaida attacks in 2006, though unsuccessful, have forced the regime to improve security. In addition, the Saudis have also built-in excess capacity on the Red Sea to export oil in the event the main Persian Gulf port's operations are interrupted. A more interesting question regarding Saudi oil revolves around the size of the reserves and whether the current level of production can be maintained. Some, most notably Matthew Simmons, have claimed that the Saudis have reached their peak oil production levels; others have disagreed. At the root of the problem is the validity of the figures offered by the national Saudi oil company ARAMCO.
The U.S.-Saudi Relationship

Oil: the core of all discussions about energy policy lays the Saudi-American relationship, which, as the Saudis are fond of pointing out, goes back to the days of Franklin Delano Roosevelt. This relationship has been characterized by many as one in which the U.S. provided security in exchange for stable oil prices.

With the exception of the 1973 oil embargo, this Faustian bargain of sorts has worked fairly well. The Saudis, with their ability to quickly ramp up production, could be relied upon to bring the more extreme members of OPEC in line. In fact, the Saudis have acted as a swing or a producer of last resort. However, in the recent run-up in oil prices, their ability to contain price increases was more limited because of the tightness of the markets.

Is the decades-long bargain between Saudi Arabia and the U.S. over? Saudi disaffection with U.S. failure in Iraq and the possibility that the U.S. primarily because of domestic political pressure, may retreat following a withdrawal from Iraq worries the Saudis. Washington's weakness in the region and U.S. failure in Iraq have accentuated the weakness of Washington's support in the Middle East.

Does the emerging Chinese-Saudi relationship constitute a threat to the U.S.? As major oil consumers, China and the U.S. share similar visions of the oil market and, therefore, have comparable expectations of the Saudis: They both want a constant flow of oil at a reasonable and stable price. This said, the Chinese are nervous that their growing economy does not become the victim of sudden shortages and hence their desire to lock in supplies is not just from Saudi Arabia but also from the Sudan and elsewhere. A closer Chinese-Saudi relationship will lead to other externalities in trade and arms procurement. The Chinese have in the past supplied the Saudis with weapons, included sophisticated missiles. Saudi Arabia may want to further deepen this aspect of their trade.

However, when it comes to Saudi security there is no substitute for the U.S. The U.S. is the only country that can project power into the Persian Gulf consistently and over a long period. What is more, the Iraqi experience notwithstanding, Washington has repeatedly demonstrated that it is willing to use force when necessary. With the rise of Iran, changes in Iraq and the possible constellation of a Shiite arc that some Sunnis fear is developing, the Saudis, though the largest power in the Gulf after Iran, are no match for Tehran. The one other country, which in the future can become a factor in Saudi security, even before China, is India. The latter has not only built a navy capable of modest projection, but, perhaps more importantly, has other links to the Gulf in general in the form of a large expatriate community.

The Saudis, who initially feared the demonstration effect from a successful U.S. effort at installing democracy in Iraq and the Bush administration's insistence on furthering democracy in the region as a means of averting future 9/11 attacks, are now more afraid of the backlash effects of failure in Iraq. Even if the U.S. in the final analysis manages to build a semblance of stability in Iraq, the time and effort it took have generally discredited the venture. The Saudi public has been far more sympathetic to the insurgency than the regime would have liked. As a result, Riyadh feels it has to bolster its own Sunni, and perhaps more importantly, Arab and Islamic bona fides. This is why the Saudis have assumed a much more assertive stance in the region. They once again deployed their peace plan for the Arab-Israeli conflict and engineered a ceasefire between Hamas and the Palestinian Liberation Organization and a government reshuffle in the Palestinian territories. If Saudi assertiveness appears to have come at the expense of the U.S., it has not. Mindful of Iran's rising profile and popularity, what the Saudis are doing is filling the political vacuum left by the U.S. administration. They also fear the backlash from Iraq: many of the suicide bombers come from Saudi Arabia and a very large number of Sunni insurgents and al-Qaida elements have gotten a tremendous educa

Iraq represents a real challenge for the Saudis; a hasty U.S. withdrawal is the worst possible outcome for them because it would force them to become directly engaged in the quagmire with no possible satisfactory end game. A long-term and non-combat U.S. presence designed to fight al-Qaida forces and guarantee Iraq's boundaries may be a second best option. In the long-run, the Saudi preference is for Iraq to regain its stability and for the U.S. to remain involved in the region but from over the horizon.

Although the Saudis have made overtures to Iran, including to its hard-line president, the fact remains that these are ultimately made credible by the protective U.S. umbrella. Still, a nuclear Iran is likely to encourage Gulf countries to seek multiple alternative security arrangements without compromising their links to the U.S. Movement on the Israeli-Palestinian front will always result in positive feedback for the U.S., the fact remains that the impact of the Iraq war and its horrendous casualties will have had an indelible impact on the average Saudi, and this is likely to be reflected in future relations. Hence, one should expect a distancing between the U.S. and the Saudis. Nonetheless, Saudi dependence on U.S. protection, while world and therefore U.S. dependence on Saudi oil, will not diminish for the foreseeable future.

1 OPEC Members are Algeria, Angola, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE, and Venezuela
Political Islam: Challenges for U.S. Policy

PARTICIPANTS
Ljubljana, Slovenia
May 28-June 3, 2007

Members of Congress
Representative Howard Berman
and Janis Berman
Representative Earl Blumenauer
and Margaret Kirkpatrick
Representative Ander Crenshaw
and Kitty Crenshaw
Representative Susan Davis
and Steve Davis
Representative Lloyd Doggett
and Libby Doggett
Representative Phil English
and Christiane English
Representative Anna Eshoo
Representative Rush Holt
and Margaret Lancefield
Representative Sander Levin
and Victoria Levin
Senator Dick Lugar
and Charlene Lugar
Representative George Miller
and Cynthia Miller
Representative John Tierney
and Patrice Tierney
Senator George Voinovich
and Janet Voinovich
Representative Mel Watt
and Eulada Watt
Representative Henry Waxman
and Janet Waxman

Scholars/Experts
Abdel Monem Said Aly
Al Ahram Center for Political and
Strategic Studies
Cairo
Henri Barkey
Lehigh University
Nasser Hadian
University of Tehran
Ellen Laipson
The Henry L. Stimson Center
Vali Nasr
Tufts University
George Perkovich
Carnegie Endowment for International Peace
Hamid Latif Sharif
Asia Foundation Pakistan Representative
Islamabad

Project Consultant and Rapporteur
Geoffrey Kemp
The Nixon Center

Foundation Representatives
Doug Bereuter
The Asia Foundation
David Chiel
The Ford Foundation

Table: Share of reserves and annual production

<table>
<thead>
<tr>
<th>Country</th>
<th>% of world reserves</th>
<th>% of world production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>22</td>
<td>13.5</td>
</tr>
<tr>
<td>Iran</td>
<td>11.5</td>
<td>5.1</td>
</tr>
<tr>
<td>Iraq</td>
<td>9.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Kuwait</td>
<td>8.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Russia</td>
<td>6.2</td>
<td>12.1</td>
</tr>
<tr>
<td>US</td>
<td>2.4</td>
<td>8</td>
</tr>
</tbody>
</table>

Note: The table shows the share of reserves and annual production for selected countries.
Political Islam: Challenges for U.S. Policy

AGENDA
Ljubljana, Slovenia
May 28-June 3, 2007

Sunni-Shia Rivalry: Implications for U.S. Policy Toward Radical Islam
Vali Nasr, Tufts University

The sectarian violence in Iraq between Sunni and Shia militias highlights a new reality throughout the Muslim world. A centuries-old rivalry between these two branches of Islam has reached a new level of intensity, made all the more dangerous by the parallel rise of Shia Iran and its surrogate, Hezbollah, in Lebanon. Key Sunni Arab states, especially Saudi Arabia, Egypt, and Jordan, are fearful of the new assertiveness of Shia communities and are especially troubled by the prospect of a hegemonic Iran armed with nuclear weapons. These new schisms in the Middle East come at a time when U.S. policy makers face difficult options concerning war and peace, the future of energy supplies and the priority that should be given to the promotion of democracy in countries that have ambivalent attitudes towards political reform yet remain essential allies in the broader war against terrorism.

Issues for discussion
- What are the origins of the Sunni-Shia rivalry? Will the rivalry become more violent? How can it be ended?
- Which Arab countries face the greatest challenge from a Shia revival? Saudi Arabia, Bahrain, and Yemen all host significant Shia minorities.
- Since both Sunni and Shia radicals believe the U.S. is their enemy, but they hate each other, how should the U.S. deal with these factions? Are negotiations preferable to the use of force?
- Is there a Shia strategic arc stretching from Tehran to Beirut through Baghdad and Damascus? Or is this concept a scare-tactic promoted by beleaguered Sunni Arab leaders?

Iraq: Strategic Choices for the United States
Ellen Laipson, The Stimson Center

The Iraq war continues to dominate American foreign policy. The costs of the war have placed growing burdens on the U.S. budget and U.S. armed forces. Definitions of success and failure in Iraq are very elusive, with both political parties unsure of what the optimum long-term policy for success in Iraq should be. Will failure, however defined, have disastrous or merely serious consequences for U.S. regional leadership? In examining the options open to the U.S., the attitudes of the American people remain the critical variable. Hence, how the debate about the war is conducted within the U.S. has vital importance for the future of American policy in the Middle East.
Issues for discussion

- What are the most realistic outcomes that can now be expected in Iraq?
- How many troops and for how long will they have to stay in Iraq to serve these objectives? Is an enclave strategy workable? Or, if Iraq breaks out into full civil war, will the U.S. have to take sides?
- What would be the consequences of a withdrawal from Iraq while maintaining a major military presence elsewhere in the region?
- How will the smaller Arab states and Saudi Arabia deal with an American failure in Iraq? Alternatively, will the radicalism of Syria and Iran be moderated if, after all the setbacks, the U.S. prevails in Iraq?

A View From Cairo
Remarks by Abdel Monem Said Aly
Al Ahram Center for Political and Strategic Studies, Cairo

Iran’s Nuclear Challenge: What It Means for U.S. Policy
George Perkovich, Carnegie Endowment for International Peace

The leaders of Iran’s Islamic republic, with the enthusiastic backing of many ordinary Iranians, are determined to develop a fully independent nuclear fuel cycle for the nominal purposes of developing a nuclear power industry. This will eventually give them the wherewithal to develop nuclear weapons. The Bush administration and many Republicans and Democrats in Congress believe that an Iran armed with nuclear weapons poses an unacceptable threat to U.S. interests and national security. Yet, how to stop the Iranian bomb remains controversial both in a practical and political sense. Given the overstretched deployment of U.S. armed forces in the Middle East and Asia, any consideration of a unilateral ground option against Iran looks unrealistic. More likely are enhanced economic sanctions by a coalition of the willing, including the European Union and Japan. But if this is not successful in changing Iran’s policy, will air strikes or other forms of warfare be feasible or acceptable? These are the dilemmas that the Bush administration has to address in its final two years in office. These are issues the Congress, too, will have to step up to and examine, given that the ramifications of doing nothing or, on the other hand, overreacting are extremely serious.

Issues for discussion

- How far is Iran from an actual nuclear weapons capability once it gets the fuel cycle?
- How good is our intelligence? Is this intelligence shared by the IAEA and our European allies?
- What do we know about Iran’s view on nuclear weapons, particularly since it denies it has any intention of producing them?
- What would be the regional consequences of an Iranian nuclear program? Is it inevitable that nuclear proliferation will accelerate, especially in Saudi Arabia, Turkey, and Egypt?
- If military options are ruled out and sanctions do not stop the program, what sort of deterrent policy must the U.S. and its allies follow to convince the Iranian leaders that it would not be in their interest to develop a fully-fledged nuclear program?

Energy Security and Arab Gulf Geopolitics: Implications for U.S. Policy
Henri Barkey, Lehigh University

Saudi Arabia remains the most important energy producer in the world. Together with the small Gulf States, its production of oil and natural gas provides critical energy resources for the world market. As a consequence of high energy prices, the incomes of the Gulf States have risen dramatically in recent years. Thus, they are, on paper, extremely wealthy. On the other hand, they find themselves in a very dangerous neighborhood and are fearful that homegrown terrorists, together with the hegemonic aspirations of Iran, pose a threat to their security. The U.S. is the only country that has the military capability to defend them against such threats, but the Saudis are uncomfortable with American military presence in their territory. Yet, were the U.S. to leave the Gulf, they would have no option but to cut deals with countries such as Iraq and Iran. In the longer run, they may get some protection from India, but that will not happen any time soon. This comes at a time when there is a continued debate in the U.S. administration and Congress as to what priority political reform in the Arab world should have on the American agenda. Since some of the most conservative Muslim countries in the region are Sunni Arab and are supporting the U.S. in the war against terrorism and the expansion of Iranian power, how far should we push them to reform when they themselves are not eager to do so?

Issues for discussion

- Is there any way in the short run the U.S. can wean itself from dependency on Middle East oil and natural gas?
- How much support is there in the U.S. for continued protection of the Arab Gulf, when the major consumers of its oil increasingly come from Asia and Europe?
- How will the outcome of the war in Iraq affect relations with the Gulf States?
- How do small countries like the Emirates, Qatar and Bahrain hope to survive? Can their economic model of openness and financial entrepreneurship work?