

THE CHALLENGE TO THE MIDDLE EAST ROAD MAP

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

—————
JUNE 30, 2005
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Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web: <http://www.gpoaccess.gov/congress/index.html>

U.S. GOVERNMENT PRINTING OFFICE

25-922 PDF

WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
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THE CHALLENGES TO THE MIDDLE EAST ROAD MAP

THURSDAY, JUNE 30, 2005

U.S. SENATE,
COMMITTEE FOREIGN RELATIONS,
Washington DC.

The committee met, pursuant to notice, at 9:30 a.m., in Dirksen Senate Office Building in room SD-419, Hon. Richard G. Lugar, chairman of the committee, presiding.

Present: Senators Lugar, Biden, Hagel, Chafee, Coleman, Feingold, Obama, Kerry, Sununu.

OPENING STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

The CHAIRMAN. This hearing of the Senate Foreign Relations Committee is called to order. The committee meets today to examine the current state of the Middle East Road Map. Advancement of the peaceful two-state solution envisioned in the road map is urgently needed by the Israelis and Palestinians and is critical to United States success in the global war on terrorism. Al-Qaeda and other terrorist organizations use the Israeli-Palestinian conflict to enlist fresh recruits to conduct terrorism across the globe. We should continue to pursue, without delay, every opportunity to resolve this longstanding conflict.

The road map has shown promise as a means for organizing talks and resolving issues between Israel and the Palestinians. The death of Yasser Arafat and the January election of Palestinian Authority President Mahmoud Abbas generated hope that the Israelis and Palestinians could find common ground to embrace the vision of two states living side by side in peace and security.

Both sides are now focused on the announced Israeli withdrawal from 21 Gaza settlements and 4 West Bank settlements. If this withdrawal can be accomplished smoothly, it could set a precedent for future Israeli-Palestinian cooperation. With only 6 weeks before the disengagement begins, however, the willingness of both sides to make compromises on details of the disengagement plan appears to have diminished. Palestinians fear that the Gaza disengagement will result in "Gaza first and Gaza last"—a truncated outcome that fails to address other settlement issues. Israelis fear that the terrorist factions— Hamas, Palestinian Islamic Jihad, and others—are using the temporary cease-fire as an opportunity to reorganize and rearm.

The unproductive meeting that occurred on June 21 between Prime Minister Sharon and President Abbas reflected the fragility

of the process. It also demonstrated the need for unwavering engagement by the members of the Quartet—the United States, the European Union, the United Nations, and Russia, as well as regional states. Both Israel and the Palestinians urgently need international support to fortify their ability and willingness to carry out their responsibilities under the road map.

Israeli and Palestinian leaders must develop a coordinated plan for completing the Gaza disengagement. The Palestinians must take concrete actions to reform their security forces, establish new institutions, enforce the rule of law, and disarm those who commit or incite violence. The Israeli Government must refrain from taking steps that prejudge peace negotiations and must plan beyond the withdrawal of 8,000 settlers from Gaza. The Israelis also must take steps to ease access and transit, allow trade and commerce, remove unauthorized outposts, and stop settlement expansion.

The United States has pledged \$350 million for assistance to the Palestinians to facilitate these efforts. This assistance, along with support from other nations, must be delivered through transparent and accountable mechanisms. In addition to the Quartet members, Egypt, Saudi Arabia, Jordan, and other Arab States must devote their own political and economic resources to supporting the peace process.

We should consider how international organizations, such as the United Nations or nongovernmental groups, might help prevent violence by sending observers to monitor the Gaza disengagement. The United States should also explore whether NATO might oversee a conventional weapons disarmament and destruction program to prevent the proliferation of arms to terrorists. Such a program might be linked with jobs or other economic incentives to address the extremely high unemployment rates among Palestinians.

On our first panel today, we welcome Ambassador David Welch, Assistant Secretary of State for Near Eastern Affairs, who is responsible for United States policy and diplomacy in the region. We also welcome LTG William Ward, Deputy Commander of the U.S. Army in Europe and U.S. Coordinator for Security in Israel. General Ward has been tasked with helping the Palestinians reform their security organization and build infrastructure and capabilities to facilitate Palestinian and Israeli security cooperation.

On our second panel, we welcome Mr. James Wolfensohn, the Quartet's Special Envoy for the Gaza Disengagement. Mr. Wolfensohn is responsible for helping Gaza become economically viable after the Israeli withdrawal, a task for which his long experience at the World Bank has prepared him well.

Each of our witnesses is playing a critical role in meeting the challenges in the Middle East, and we are grateful for their service. We look forward to their testimony.

At the time that the distinguished member comes to the forum this morning, I'll recognize him, of course, for an opening statement. But at this time, we would like to proceed with our first panel. Ambassador Welch, I understand that you have a statement, and General Ward, if you do not have a prepared statement, you may have some remarks. We will recognize you after Ambassador Welch. Your full statement will be made a part of the record, and you may proceed anyway that you wish.

STATEMENT OF HON. C. DAVID WELCH, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, DEPARTMENT OF STATE, WASHINGTON DC; ACCOMPANIED BY LTG WILLIAM E. WARD, DEPUTY COMMANDER, U.S. ARMY EUROPE, U.S. COORDINATOR FOR SECURITY, DEPARTMENT OF DEFENSE, WASHINGTON DC

Ambassador WELCH. Mr. Chairman. I'm pleased to have the opportunity to address the committee today. I've recently been in the region with my boss, Secretary Rice, meeting with Israelis and Palestinians, and I shall shortly be headed back. I believe this session is timely, for it gives us the opportunity to take your advice and it also affords the three of us the opportunity to discuss our policy approach.

The weeks ahead are hugely important. There is a lot of work to do, and the importance of this issue is clear from our intensive and multipronged approach to ensuring that disengagement is successful, to set the stage for further progress afterward. As you shall hear, sir, the missions of James Wolfensohn and General Ward, two distinguished public servants, are to help the Israelis and Palestinians with the hard work needed for a successful disengagement and beyond. We have engaged other states in the Middle East, as well as the broader international community. And we have the direct leadership of the senior levels of the U.S. Government in bringing all these elements together. Secretary Rice has been to the region twice, making stops in Jerusalem, Ramallah, and in neighboring countries to push for this support. I have been out to the region numerous times since this committee saw fit to confirm me in March. The Secretary has raised these issues in international gatherings ranging from Quartet meetings in Moscow and London to the recent G-8 Foreign Ministers meeting in London, where it was a central topic of discussion. And President Bush has placed this issue as a high priority in many meetings with his counterparts. Not just those from the region.

Sir, I believe these activities are starting to show some results. The Israelis and Palestinians are now starting to focus on the practical issues needed to make Gaza disengagement a success. Of those practical issues, security is perhaps the most critical, particularly, fulfillment of the commitments by Israel and the Palestinians made at Sharm el-Sheikh in February. They are discussing their concerns with each other, and we are intensively engaged in helping them to make progress. As we work in this and other areas to ensure a successful withdrawal from Gaza, we're very much aware of the constructive role that most of the international community can provide and should play in supporting efforts toward peace.

Unfortunately, sir, there are also states such as Syria, whose recidivist support of Palestinian extremist groups is an attempt to block Israeli and Palestinian desires to achieve peace. Notwithstanding that unhelpful effort, Israel, the Palestinians, the United States, and the international community are committed to making disengagement a success, as a successful Israeli withdrawal from Gaza, an orderly Palestinian takeover there, will help to reenergize the road map and bring us closer to realizing the two-state vision laid out by President Bush.

Disengagement is scheduled to begin in mid-August, so time is short. The Palestinians and Israelis have begun to work coordination issues through a system of technical committees set up to deal with security and economic issues related to the disengagement. Some progress has been made, but more remains to be done. Overall Palestinian performance on confronting violence has been far from satisfactory, and this is a real shortfall and area of concern.

The main challenges can be divided into two categories—improving the security situation and creating the conditions for growth in the Palestinian economy. In the first category, our work is led by General William Ward, the U.S. Security Coordinator, who's here with me. And I am pleased to be joined by him, because he has devoted full time, 24-hour-a-day, 7-day-a-week effort to the security reorganization of the Palestinians.

The past 6 months have seen some positive developments on the security front, but, of course, much remains to be done. That has been made more evident by a recent increase in violence in Gaza and the West Bank. The announcement by Secretary Rice when she was in Jerusalem, just recently, June 19, that Israel and the Palestinian Authority agree that the Israeli withdrawal must proceed peacefully and without violence, is important because both parties have now gone on record that peaceful disengagement is crucial for success of this entire process.

President Abbas has taken some concrete steps toward security reform, particularly announcing security consolidation under an empowered Ministry of Interior, General Nasser Yussif. General Ward is working intensively with the Palestinians to help them continue their progress on security reform, but I have to be objective and acknowledge that complete reform is not going to happen overnight. The International Community, under General Ward's leadership, is providing assistance. For example, the European Union and Egypt are providing training for security forces.

General Ward's assessment of Palestinian equipment needs has been provided to the international donor community to guide their security assistance efforts. And it identifies four broad areas of need: Communications and control; mobility and transportation; logistics and medical services; and force protection.

General Ward is also working with Israel and the Palestinians to fulfill the remaining commitments they made at Sharm el-Sheikh in February. Israel announced, last week, that it would transfer control of Bethlehem and Qalqilyah to the Palestinians within 2 weeks. It promised also the release of some additional prisoners and made a commitment to improve the situation of the crossings to ease movement by Palestinians.

The second pressing area of concern is that of the Palestinian—development of the Palestinian economy. Here the efforts of the International Community are led by James Wolfensohn, the Quartet Special Envoy for Disengagement. Mr. Wolfensohn, of course, is going to address the committee after my testimony, and he will have plenty to say about this important and challenging mission.

I do want to say this about his work, and I think it's important to recognize that he enjoys very high credibility with both Israelis and Palestinians. He met recently, also, with the Quartet Principals both in Moscow and in London, and with the G-8 Foreign

Ministers in London. They have endorsed his work and his mission. He's focusing on coordination of the nonmilitary aspects of withdrawal, as well as economic revitalization of the Palestinian economy.

I would like to, also, highlight the fact that Israel and the Palestinians have made progress on two key economic issues during Secretary Rice's visit 2 weeks ago. They agreed together that removal of existing settler homes in Gaza is the most sensible course of action. They also agreed that an improved flow of people and goods in and out of Gaza, and between Gaza and the West Bank, is necessary for economic revival.

The missions of Mr. Wolfensohn and General Ward, clearly require close consultation with Israelis and Palestinians. In order to facilitate those consultations Mr. Chairman, we have decided to amend our travel band on official United States travel to Gaza. We are now allowing, on an exceptional basis, limited travel to Gaza by only Mr. Wolfensohn, and General Ward, should he seek to avail himself of that, and others in direct support of their mission, on a case-by-case basis in recognition of this imperative need to assist the disengagement process.

The broader international community can also advance the peace process in many ways, including providing economic assistance and helping with security training and reform. It is important to note that the Arab States have a key unique role to play in promoting peace. They have a special responsibility to provide economic assistance to the Palestinians and to press for continued reform of the Palestinian Authority, but they can also move this process forward by resuming contacts with Israel, reopening trade and representative offices, and abandoning the Arab League boycott.

Above all, Israel's neighbors in the region have an obligation to clearly oppose those who would support terrorism or work against the peace process. Sir, Gaza disengagement does hold the possibility of reenergizing the road map, which is the only plan on the table. We believe that the road map and existing mechanisms, including the Quartet, these missions of Mr. Wolfensohn and General Ward, and of course, our diplomatic establishments in Tel Aviv and in Jerusalem are the best avenues right now for moving the parties forward on both disengagement and road-map obligations. Which for the Palestinians include confronting violence and dismantling the terrorist infrastructure, and for Israel, include halting settlement expansion and dismantling unauthorized outposts. Thus we'll continue our work through these channels to promote, ensure, peaceful—this orderly disengagement which we hope will trigger progress along the road map and move us closer to that goal of the two-state solution to the Israeli-Palestinian conflict.

Thank you very much, sir.

[The prepared statement of Ambassador Welch follows:]

PREPARED STATEMENT BY HON. C. DAVID WELCH, ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Thank you, Mr. Chairman. I'm pleased to have the opportunity to address the committee today. I was recently in the region with Secretary Rice, meeting with Israeli and Palestinian officials, and I am soon headed back. This hearing is timely, for it allows us the opportunity to get your advice and views and also affords us the time to discuss our policy approach.

The weeks ahead are hugely important. There is a lot of work still to do, and the importance of this issue is clear from our intensive and multipronged approach to ensuring that disengagement is successful, to set the stage for continued progress afterward. As you shall hear, the missions of James Wolfensohn and General Ward are to help the Israelis and Palestinians with the hard work needed for successful disengagement and beyond. We have engaged other states in the Middle East, as well as the broader international community. And we have the direct leadership of the senior levels of the U.S. Government in bringing all these elements together. Secretary Rice has been to the region twice, making stops in Jerusalem, Ramallah, and neighboring countries, to push for support, and I have been out to the region numerous times since March. The Secretary has raised these issues in international gatherings ranging from Quartet meetings in Moscow and London to the recent G-8 Foreign Ministers meeting, where it was a central topic of discussion. President Bush has placed the highest emphasis on the Israeli-Palestinian issue in many meetings with his counterparts.

These activities are starting to show results. The Israelis and Palestinians are now starting to focus on the practical issues needed to make Gaza disengagement a success. Of those practical issues, security is perhaps the most critical, particularly fulfillment of the commitments the Israelis and Palestinians made at Sharm el-Sheikh in February. They are discussing their concerns with each other, and we are intensively engaged in helping them make progress. As we work in this and other areas to ensure a successful Israeli withdrawal from Gaza, we are also very much aware of the constructive role that most of the international community can, and does, play in supporting efforts toward peace. Unfortunately, there are also states such as Syria, whose recidivist support of Palestinian extremist groups is an attempt to block the Israeli and Palestinian desire to achieve peace. Despite such unhelpful efforts, Israel, the Palestinians, the United States, and the international community are committed to making disengagement a success, since a successful Israeli withdrawal from Gaza and an orderly Palestinian takeover there will help to reenergize the road map and bring us closer to realizing the President's two-state vision.

It has been 3 years since President Bush first put forth his vision of two democratic states—Israel and Palestine—living side by side in peace and security. Since then, a strong international consensus has developed behind his vision and behind the road map for peace designed to realize that vision, but we have to be honest and admit that road map implementation has lagged and neither side has fulfilled its obligations. The death of Arafat, the election of Mahmoud Abbas, who is committed to reform and has spoken out publicly against the use of violence, and the Israeli initiative to withdraw from Gaza and parts of the northern West Bank have together provided an opportunity to get the parties talking to each other again and, we hope, moving forward toward meeting their obligations under the road map.

Disengagement is scheduled to begin in mid-August—some 6 weeks away. Time is short, and Israelis and Palestinians need to engage in genuine, effective coordination. During the Secretary's visit to Israel we were briefed on joint planning efforts currently underway between the Israelis and the Palestinians. The parties have begun to work coordination issues through a system of technical committees set up to deal with security and economic issues related to disengagement. Some progress has been made, but much work remains to be done to ensure that this complex operation is successful. Overall Palestinian performance on confronting violence has been far from satisfactory, and this is a real shortfall and area of concern.

The main challenges to be addressed between now and mid-August can be divided into two broad categories—improving the security situation and creating the conditions for growth in the Palestinian economy. In the first category, our efforts are led by General William Ward, the U.S. Security Coordinator, who has been in Israel since March 9 to assist the Palestinians in reforming and restructuring their security services, and to lead and coordinate international assistance toward those efforts. I am pleased to be joined today by General Ward, who is ready to answer your questions about the status of Palestinian security force reorganization efforts.

The past 6 months have seen some positive developments on the security front, but again, much remains to be done. That has been made particularly evident by the recent increase in violence in Gaza and the West Bank, including the firing of mortars and Qassam rockets into Israeli towns and settlements and the killings of Israeli civilians in the West Bank. The announcement by Secretary Rice, when she was in Jerusalem on June 19, that Israel and the Palestinian Authority agree that the Israeli withdrawal must proceed peacefully and without violence, may appear to be a basic point, but it is important that both parties have now gone on record as agreeing that peaceful disengagement is crucial for success of this entire process.

President Abbas has taken some concrete steps toward security reform, including replacing some senior officials, passing a security pension law, decreeing the consolidation of the security forces under the authority of the Ministry of Interior and its Minister, Nasser Yussif, and cooperating fully with General Ward and his team. Abbas has made clear he will hold his security chiefs accountable for their performance in halting attacks on Israelis. General Ward is working intensively with the Palestinians to help them continue their progress on security reform, but we must be objective and acknowledge that complete reform is not going to happen overnight. The Palestinians still do not have a unified command structure, and their forces lack the discipline and trust to respond appropriately to their official chain of command. The consolidation of the security forces under Nasser Yussif is a start, and General Ward is continuing to address this problem with the Palestinians. The international community is also playing a large role in these security reform efforts, in close coordination with General Ward. The European Union's civil policing program is training and equipping part of the Palestinian police force. Egypt is providing training for some Palestinian security forces. General Ward has assessed the equipment needs of the Palestinian security services, and a list of those needs has been provided to the international donor community to help guide the community's real interest in assisting the Palestinians with their reform and capacity-building efforts in support of successful Gaza disengagement. That list identifies four broad areas of need: Communications and control; mobility and transportation; logistics and medical; and force protection. We will continue to work urgently with the international community to identify the best way to channel aid for these areas into an effective program to support security reform.

We are also encouraging Israel and the Palestinians to fulfill the commitments they made at Sharm el-Sheikh in February. They have already fulfilled some of those commitments: Israel has handed over nearly 900 Palestinian prisoners and has transferred security responsibility for Tulkarm and Jericho to the Palestinian Authority. After Prime Minister Sharon's meeting with President Abbas last week, Israel announced that it would transfer control of Bethlehem and Qalqilya to the Palestinians within 2 weeks, promised the release of some additional prisoners, and made a commitment to improve the crossing situation to ease movement by Palestinians.

An improved security environment is crucial for progress in our second category of pressing concern: That of Palestinian economic development. Here our efforts are led by James Wolfensohn, the Quartet Special Envoy for Disengagement. Mr. Wolfensohn will address this committee after my testimony, so I will not go into great detail on his mission, but I do want to say a few words about it. First of all, Mr. Wolfensohn has high credibility with both Israelis and Palestinians and met recently with the Quartet Principals and G-8 Foreign Ministers, who endorsed his work. Jim is focusing on Israeli-Palestinian coordination of the nonmilitary aspects of the withdrawal, as well as on economic revitalization of the Palestinian economy. He has brought together a team drawn from both the U.S. Government and from our Quartet counterparts, and his mission is clear evidence of how the international community can work together to contribute to the peace process. Mr. Wolfensohn has acted as a catalyst to improve coordination between Israel and the Palestinian Authority, and has engaged the donor community on the continued need to support the Palestinian economy. The key issues for Palestinian economic revival have been clearly identified. The immediate challenges include the disposition of settlement assets, improving the flow of goods and people, and the establishment of transportation links between the West Bank and Gaza. The Israelis and Palestinians made progress on the first two points during Secretary Rice's visit 2 weeks ago, mutually agreeing that removal of existing settler homes in Gaza is the most sensible course of action; and Israel agreed to evaluate the way it manages crossings, in order to improve the flow of people and goods. However, we must remember that resolving these issues alone will not lead to an improved Palestinian economy if the Palestinian Authority does not maintain the pace of reform. Building transparent, accountable government institutions and creating an investor-friendly climate is critical to restoring growth.

The task of returning the Palestinian economy to a sustainable footing will require the coordinated efforts of both the parties and the international community. Efforts by the Israelis and Palestinians alone are unlikely to be sufficient to revive the Palestinian economy. Four years of intifada-induced economic decline have left over two-thirds of Gazans in poverty. Declining revenue has left the Palestinian Authority with a \$660 million shortfall in its budget this year, according to IMF estimates. At the March 1 London Meeting Supporting the Palestinian Authority, the international community underscored its readiness to play a vital role by providing financial and technical support to the Palestinians at this critical moment.

In this regard, it is important to highlight the impact of our own efforts. The United States remains the single largest contributor of assistance to the Palestinian people. The \$200 million in FY 2005 supplemental funding and our FY 2006 request for \$150 million in assistance will be used to help improve the quality of life for Palestinians in both Gaza and in the West Bank. During President Abbas' May 26 visit to the White House, President Bush announced that \$50 million would be used in direct assistance to the Palestinian Authority for new housing and infrastructure projects in Gaza. This assistance will be drawn from remaining unobligated FY 2005 funds.

The challenging missions of Mr. Wolfensohn and General Ward clearly require close consultation with Israeli and Palestinian officials. In order to facilitate these consultations in the short time left before Gaza disengagement begins, we have decided to amend our travel ban on official United States travel to Gaza. The travel ban remains in place, but we are now allowing limited travel to Gaza by only Mr. Wolfensohn and General Ward—and others needed for direct support of their missions—on a case-by-case basis, in recognition of the imperative need to assist the Gaza disengagement process.

I have mentioned a number of areas in which the international community can be, or has been, helpful, including providing economic assistance and helping with security training and reform. It is important to note that amongst the members of the international community, the Arab States have a key role to play in promoting peace. They have a special responsibility to provide economic assistance to the Palestinians and to press for continued reform of the Palestinian Authority, but they can also move the process forward by resuming contacts with Israel, reopening trade and representative offices, and abandoning the Arab League boycott. Above all, Israel's neighbors in the region have an obligation to clearly oppose those who would support terrorism or work against the peace process. We will continue to work over the coming months to encourage our friends and partners, in the region, to help create a positive environment for peace.

Gaza disengagement holds out the possibility of reenergizing the road map, which is still the only plan on the table. We believe that the road map and existing mechanisms, including the Quartet, the Wolfensohn mission, the Ward mission, and of course, our Ambassador in Tel Aviv and our Consul General in Jerusalem, are the best avenues right now for moving the parties forward on disengagement and on their road map commitments. Both Israel and the Palestinians continue to have obligations under the road map: Palestinians must confront violence and dismantle the terrorist infrastructure; Israel must stop settlement expansion and dismantle unauthorized outposts. We will continue to work with both parties, through our existing channels, to encourage them to meet their road map commitments and achieve a peaceful, orderly Israeli withdrawal from Gaza and parts of the northern West Bank. Successful Israeli disengagement will—we hope—trigger progress along the road map and move us closer to our ultimate goal of the two-state solution to the Israeli-Palestinian conflict.

Thank you, I'll be happy to take your questions.

The CHAIRMAN. Thank you very much, Ambassador Welch. General Ward, do you have comments at this point in the hearing?

General WARD. Thank you, Mr. Chairman, I do. And I, too, am pleased to be here to provide an overview of the ongoing Palestinian security sector reform and disengagement. As you know, last February, the Secretary of State announced my special assignment as the U.S. Security Coordinator for Israel and the Palestinian Authority. My responsibilities include advising and assisting the Palestinian Authority and consolidating their security sector, as well as coordinating the International Assistance to the Palestinians, and encouraging meaningful bilateral cooperation between the Israelis and the Palestinians.

I work closely with the chief of mission in Tel Aviv and in Jerusalem, and with various members of the international community and organizations that are also located there in Jerusalem. I have direct access to the Secretary of State, and work most often through the Assistant Secretary for Middle Eastern Affairs.

It is my belief that both President Abbas and Prime Minister Sharon are committed to peace and to the immediate task at hand

associated with disengagement. Now success could sure rest with both parties. They have done things with respect to expressing their commitment to this process, but they must follow through on those commitments. Bilateral meetings are now occurring on multiple levels within the security sector and elsewhere, and these are important steps for this disengagement process. Now these meetings must occur, however, and continue to be put in place regardless of the day-to-day circumstances that occur on the ground which are up and down as you are well aware.

The requirement for both sides to compromise and to develop a sense of trust and cooperation remains an ongoing challenge. Most accounts of these bilateral meetings that do occur, however, are positive, and I get that from both parties. And my team and I meet regularly with Israeli and Palestinian security sector leaders to keep pushing them for doing those things that are important for the continuation of this process. As you are aware, the Palestinian security sector was fractured and dysfunctional, with separate chieftans that were loyal to individuals with not having any clear lines of authority and unresponsive to any central command. To reform their security sector, first required the Palestinians to shift the way they thought about providing security and the role of these security institutions. And that I believe, sir, has occurred.

Translating that into actions on the ground is where the challenge still remains. Our focus is to assist the Palestinians in developing a security sector that is based on the rule of law, good governance, with clear lines of authority, responsive and responsible to the duly elected civilians' authorities and to the Palestinian people. I believe that the emphasis on institutions is critical if we are to see meaningful and lasting change in the Palestinian security sector. No doubt this will be a long-term proposition.

The Palestinian Authority is taking steps to reform. The security forces are in the process of restructuring from a number in excess of 16 different security organizations to a number now about 6, moving to their goal of 3. These structures all report now to the Minister of the Interior which is what was outlined by President Abbas. We continually reinforce with all the need to use the Minister of the Interior and those institutional lines as the basis for dealing with the security sector, and not through side channels as has been the practice, all contributing to the dysfunctional nature of the security sector.

While the Palestinian security forces are taking actions on the ground, they must continually seek ways to do more. And they need the full support from the political environment that is so important for legitimizing those actions there, in the region. Now, with the recent state of lawlessness on the Palestinian streets, there is evidence that these requirements are taking hold. There are arrests being made, albeit not to the degree that I would like to see, but there is movement that we need to continue to push and encourage them to do.

I'd also highlight some positive work being done in detecting and closing down tunnels along the Gaza Strip. This work was being done in cooperation with the Israelis on some cases, and then being taken—action being taken by the Palestinians.

However, as I indicated, more needs to be done. Regarding the Palestinian reforce requirements; we are working with the international community to identify donors for their material needs and the Israelis to expedite delivery of these items once they are in country. Currently our efforts are focused on providing materials, moving it. Right now, the Europeans, through their assistance programs, their police force, have brought in equipment and we're working with the Israelis to get that expedited to the Palestinians. We've also provided, as Ambassador Welch pointed out, an initial consolidated list of material needs to the international community. These items include individual equipment and clothing, vehicles, communications equipment, as well as facilities. Another important aspect of our approach is working with, and coordinating the efforts of, the international community and ensuring that our aid is synchronized, targeted, and not disruptive to the overall process of restructuring an effective security force. As the Ambassador pointed out, disengagement remains our immediate focus.

A successful disengagement sets the conditions for a return to the road map. Disengagement success will be a function of the actions taken by both sides, leading up to, during, and after; it is about the sides honoring their commitments and the understandings that were agreed to at Sharm. Both critical to an atmosphere of peaceful disengagement; one that does not occur under fire. Both the Israelis and the Palestinians must take actions to do what they stated they would do irrespective of what the other side is doing or not doing. The ongoing disengagement coordination is critical in this endeavor. In my estimation, the most significant factor for improving the security situation rests in the leadership of the Palestinian Authority providing consistent and unified direction to the Minister of the Interior and to the security chiefs. They must gain the support and commitment of the process by all. Notably the FAFA leadership, ministers, security chiefs, and heads of families in that environment. There must be an effective information program that reaffirms the future, both near and far events, and provides hope for the Palestinian people, backed by credible programs that my friend, Mr. James Wolfensohn, is leading an effort on, that will make peace and stability a better option than violence and terror.

Success rests on the shoulders of both parties. There's a commitment at the highest levels. Translating that commitment to actions on the ground, as I said, remains a challenge. They must follow through with those actions.

In the end, effective security sector reform is an effort and effective economic and social advantage.

Sir, thank you for the opportunity to make that statement.

The CHAIRMAN. Thank you very much, General Ward, for that statement. Let me recognize now the distinguished ranking member of our committee for his opening statement.

**OPENING STATEMENT OF HON. JOSEPH R. BIDEN, JR., U.S.
SENATOR FROM DELWARE**

Senator BIDEN. Thank you very much. And, Mr. Chairman, thank you for holding this hearing. I think oversight is absolutely critical, not just for our information, but for informing the Amer-

ican people as to exactly what commitments we've made, what actions we're taking, and how well we're doing, and what needs to be done that isn't being done, if that's the case.

And it's a pleasure to see you again, Mr. Secretary, and General, welcome. Prime Minister Sharon, I think we'd all agree—and I've had my disagreements, privately with Prime Minister Sharon over the last 30 years, but I think he deserves special praise right now, because what he's doing not only takes political courage, it takes some personal courage. And I want to just acknowledge that.

Removing 8,500 people, figuratively speaking, with their mattresses on their back, heading out from a place they've been living to move to another place, is no small feat. If you were going to remove 8,500 people from North Capital Street and out toward the stadium, it would be an undertaking. It would be very different if we were doing it under extremely emotional and hostile circumstances. I see the job that the General has, obviously, is to see to it that it's less hostile. And you can't do much about the emotion, but you can do a lot about the hostility. And I thank you for your efforts, General.

So the question to me is: What's the role of the United States, our Partners in the Quartet, and the Arab States in this process? First, the Palestinians and the Israelis have to dramatically improve the coordination with regard to disengagement. The General and the Secretary have spoken a little bit to that, but it seems to me, and I'm going to be asking about this, General, there's a long way to go. And not much time to do it.

Second, it seems to me we have to step up our efforts to help President Abbas, to bring tangible—tangible improvements to the lives of the Palestinians. I know my colleagues on the committee have been with me, and we've all done some version of this where every meeting I've had with Abbas over the last year, 6 months—and going back 2 years to his short stretch as Prime Minister—has been, tell me what you need. What is it specifically that we can do to demonstrate rapidly that you're able to produce for your constituency.

All of us know Hamas is a violent form of a Tammany Hall of the 19th century. Not only is it a physical threat, but it provides some economic grounding for people in Gaza. You want to go to college you go to Hamas. You want to get a—their version of a Christmas turkey, perhaps not the best analogy, but you know, you go to Hamas. And so I applaud the President's announcement this week of \$50 million in direct aid to the Palestinian Government. The fact of the matter is, I think we're making a serious mistake putting the \$200 million supplemental appropriation through NGOs. I think you need a big bang for the buck now. There's an election that's been put off 6 months. I'm just a plain old politician, Mr. Secretary, but I tell you, if the water ain't running, and if you've got to go to this unofficial guy to help you get your kid to school, and I'm the elected official, and I've got to go to an NGO down the road, then it doesn't give me much leverage, it doesn't give me much authority, it doesn't give me much standing. I think we're making a serious mistake, and I think we should be moving more of that \$200 million directly, and immediately, to Abbas.

I would also suggest, Mr. Chairman, that even as we bolster the Palestinian Authority, we have to make it clear that it's going to have to move decisively. Decisively, against lawlessness as it's occurring and if it occurs during this process. And fourth, it seems to me, we have to be prepared to help Israel meet cost of shifting its development priorities away from settlements in the West Bank and Gaza and toward areas within Israel proper such as in the Negev and Galilee. I think this would be a wise and necessary investment for the United States to make.

And fifth, even as we give Israel our full support in disengagement, I fully support the administration call for Israel to avoid unilateral actions, such as settlement expansions. I think that would be incredibly counterproductive. I can only imagine the political pressures that might be in play for the Prime Minister. But I think it's a tragic mistake, if you were to do that. Expansion complicates the prospects for peace, creates unnecessary hardship for Palestinians, and I think creates fear that this is Gaza last, not Gaza first.

Sixth, seems to me we have to press Egypt to take responsibility for the boarder with Gaza, so that Israel can make a complete withdrawal. Egypt has a significant stake in preventing Gaza from becoming an armed terrorist camp and the source of instability. The smuggling of sophisticated weapons from Egypt's territory has to stop.

Seventh, we must press, in my view, the oil rich Arab States to give a small portion of their windfall profits, and they are windfall profits now, they have more money than the Lord at the moment—to the Palestinians. It's time to step up, help your Arab brothers and sisters. Step up to the ball big time.

When I met with Prime Minister Sharon, one of the several times this year, in his office—it was interesting for the Israeli Prime Minister to say this, and he said it to you guys, I know, on the panel—but he said, the Palestinians should be building—and we would join them in building, a multimillion dollar desalinization plant. Their own electrical capability. The Arab States should step up to the ball and provide hundreds of millions of dollars to do that, now.

They're so phoney in their bleeding and concern for their Palestinian brothers and sisters, now is the time. Now is the time. And I realize they're strong words saying phoney, but I think they are phoney, in the way in which they express their deep concern for the Palestinians. Show me. It's that old Cuba Gooding expression, show me the money. Show them the money, show them your concern.

Mr. Chairman, in the weeks ahead I think we have an opportunity to make significant progress toward the goal of securing a lasting peace in the Middle East. Many of the challenges we face in this region will seem a lot more manageable if we're able to make progress on this front. And we all know what the stakes are, the General knows it better than anybody. If this goes successfully, I think there's an inevitable momentum to put us back on the road and move us on the road map. But if we don't, the Intifada's of the past will pale in my view. I think this is the single most significant thing that we have been a party to in the last—I don't know, last couple of decades.

So, I thank you both for your being here, I thank you for your leadership, and, General, I wish you all the luck in the world. It's like herding cats, but you're doing a good job. And I will yield my questioning time, because I took other people's time.

The CHAIRMAN. Well, thank you very much, Senator Biden. No need to do that. We'll just have a round of 10 minutes at this point for each of us to be recognized. And let me commence the questioning by asking you, Ambassador Welch, about Prime Minister Sharon's comment that there will be a long pause after disengagement before Israel would take additional steps. You know clearly this idea of a pause comes into, at least, the journalistic accounts of the situation. Is that, in fact, the Prime Minister's intent? You have visited with him and have been with Secretary Rice during her recent visits. What is the meaning of this "pause" business, and furthermore, does the Prime Minister still recognize the same road map? We talked about the road map almost as a generic situation, but what sort of road would he be prepared to take with or without the pause?

Ambassador WELCH. Mr. Senator, the road map remains the recognized guide, toward peace negotiations. It's a phased program of reciprocal actions by the parties, with support from the international community. It's accepted by Israel, the Palestinian Authority, by us, and the Quartet, of course, who drafted it. When Secretary Rice, was in Israel on this last trip, she had a press appearance with Prime Minister Sharon and at that press appearance, he stated—the Prime Minister stated that he saw the steps before us now, as a way to reenergize the road map. I think that's an affirmation of his continued commitment to the road map, as the recognized path forward. That's it. As the Secretary has mentioned, I think to you and to others, there's a tendency in the region to look at the horizon before looking at what's the first step toward it. The first step we are all agreed, is Gaza disengagement. Gaza disengagement is necessary, but not in sufficient condition to arrive at negotiations as envisioned in the road map. But, of course, the reverse is also true, because if it doesn't go well, our progress along that path is going to be very, very difficult indeed. So what we are focused on now, with intensity, and the gentleman here with me today can describe that in great detail, about how their missions are designed to support this, is to make this Gaza disengagement process succeed. It is not an end in and of itself. It is the first step. Thank you.

The CHAIRMAN. But what about the pause, and this idea that somehow we take time out? How much time? What is your comment about that?

Ambassador WELCH. Well, I seen his remarks and I, you know, there are various statements out there about the acceleration on the road map, or the lack thereof—again this next several weeks here, between now and August 15, when Gaza disengagement is scheduled to begin, and during the period in which it's conducted, are very critical to ensuring that we have a possibility of moving along the road map, pause or no pause. This has got to remain the focus of our effort. My job is to present our position on this, not to explain the various statements of others involved.

I'm confident in Israel's commitment and in the Prime Minister's commitment to the road map as the agreed basis to move.

The CHAIRMAN. Does the road map have anything to say about the wall along the current boundaries? When Prime Minister Sharon came to the United States—a couple of years ago, I suppose—for one meeting that he had with some members of our committee, he described the building of this wall as important for security, to combat terrorism. Does the wall remain, what happens to it in the process?

Ambassador WELCH. Sir, the barrier that is—has been constructed, is still under construction in some areas, as I understand it, designed to protect Israel security. We understand and believe in Israel's right to defend itself against violence and terrorism. It's not the barrier per se that's of concern, but its course that is of concern. With respect to that, we do have issues regarding the course of the barrier, those are not resolved. This falls into the category of concerns that we have related to unilateral steps that could potentially, either affect the lives of Palestinians involved in the areas, or have the impact of prejudicing final status negotiations when we get to that point.

Like settlement activity, we express our concerns directly, both publically and privately to the Israeli Government on those issues.

The CHAIRMAN. General Ward, do you believe that the Palestinians, as they train and equip a security force, will have the ability to enforce the rule of law and to combat terrorism as we require them to do? And what is the status of that training, with regard to this mission that we all agree is important? What are the means of effecting it successfully?

General WARD. Sir, the ability will come after time. It is not there at this current juncture. It will take a resourcing, a training regimen, it will take a training program that includes discipline, that includes causing a situation where you have royalty attributed to individuals as opposed to the institutions, the legitimate institutions of the government. That process, sir, will occur over time. That translation will take time and it does not currently exist. We are doing things now to put them on the road to accomplishing those sorts of things. We are working with members of the international community, Egypt, Jordan, who have offered training assistance. European nations, other nations of the world agencies, are offering resource material that will be used to help reestablish, rebuild this security sector. But a big part of this rebuild program process, sir, also includes and requires and demands a change in how you have security sector functions being accomplished. Where you have units, loyalty, individuals, chieftans, if you will, and having this entire sector that's responsible to the essential authority, with direct responsiveness, and responsibilities back to these central governing bodies. That has not taken hold. We are working that each and every day, we've put those sorts of things into place. The security sector, initially when I arrived there, the numbers of organizations, 12, 16, point being, sir, it was fractured, they were dysfunctional. President Abbas has decreed that that security sector be consolidated, steps have been taken to consolidate the security sector. Those steps have not been completed, it's a process that is currently ongoing and it will continue to take time.

The CHAIRMAN. And, General, let me just ask you about that aspect, because frequently we have been visiting with military authorities as to how training is going in Iraq. Now that's much more complex and a larger situation. But still there are some parallels. For the diplomacy to work, and for people to have confidence in the results and so forth, the security forces that you've described have to be there. As you say, it has not been accomplished. You were assertive at the beginning. But can you give any road map of your own as to how this might proceed, given the potential for training, as you have suggested, from the Egyptians and the Jordanians, quite apart from anything we may contribute? How are these people to be recruited? How will they be paid for? Is 1 year, or 2 years, a likely plan for setting up adequate security forces?

General WARD. Sir, the current security sector includes about 58,000-plus members.

The CHAIRMAN. Palestinians?

General WARD. Palestinians. Of that number, sir, I'd say 20 to 22,000 of those folks actually show up to work. What has occurred over time is that the security sector, in my words, has been a "social welfare net," and you have payments being made to individuals who don't come out and contribute to the day-to-day security situation on the Palestinian streets. That is being looked at, is being reformed. The President recently issued a decree retiring those over 60, that has been something that had never occurred before in that society. You know the notion of retiring someone, moving them aside and letting the younger generation come forward, just wasn't something that was in that mentality of doing business.

Those steps are being taken. There are steps being taken to recruit from within these numbers of forces that exist. A formation that can be used for Gaza disengagement, that formation is being recruited. It is being stationed in Gaza, and we will continue to look for ways to get them basic training and then over time, what will be needed is sustained training, sir, that will be provided by any number of potential donors in order to professionalize and put discipline into this—into this force. And we are working with international donors to make that—make that happen.

The CHAIRMAN. Senator Biden.

Senator BIDEN. Thank you very much. General, in 10 minutes I want to focus on you, if I may. I've been hanging around you guys for the past 32 years and I have an incredible respect for you. I know that you generally go out and look at what the requirements are, and what the capabilities are, and then you make a judgment about what you think the intent of the parties are. Could you tell us as in clear laymen terms as you might be able to, what the requirements are. Forget whether or not the Palestinians or Israelis are doing what they're supposed to do. What are the requirements, as you see it from a security standpoint, that have to be in place to enhance the possibility that the disengagement will be able to be carried off, relatively peacefully without Jihadist or renegade Hamas forces or anyone else using violence? What are the physical requirements? How does this get organized?

General WARD. Sir, I appreciate that. One of the things that I have to say is, it doesn't fit the typical model, sir, that we looked over this past couple of decades.

Senator BIDEN. I bet that's true.

General WARD. So that's the first thing that I had to kind of calibrate my thinking when I arrived there. The first thing to me—intent, I think, is the first thing.

Senator BIDEN. Okay.

General WARD. Because, what is their commitment to doing these sorts of things. You need a chain of command, sir, that will cause something that's dictated and ordered, that's been issued, is there an effective mechanism means to, in fact, carry it out. You need communications that will allow that to be done. And meaningful ways, expedient ways, and then the ability to check and confirm. Without question material resources are required. The last 4 years the infrastructure of Palestinian security sector destroyed, facilities are gone, by and large, there are some facilities that exist, the equipment is old, that that's there, within—and the legitimate sector, there will be those who will say there's a lot of other stuff out there on the other side of the picture. You need basic individual equipment, items, protective clothing, you need the ability to move your force, transportation, vehicles, those are the sorts of material resources that are lacking. The question of armaments, and arms and ammunition is there—with respect to how much of that—

Senator BIDEN. If I can stop you. This is very helpful, at least to me, to try to get my head around this. Because we talk in broad general terms sitting here, but you're on the ground there. And speaking with Palestinian officials they expressed, not in as precise a way as you just did, the same kinds of concerns. In meeting with Mr. Abbas in Ramallah a while ago, he indicated that his first order of business was to get that chain of command in place. To consolidate the various militia out there, whatever you want to call them. How well is that going? How much consolidation is taking place? There are reports of efforts to reform the retirement and the pension systems and try to get rid of a lot of these folks; my words, not Mr. Abbas' words. How is that moving along in shaping the pool of Palestinian military, quasi-military police forces that you have to deal with—how is that moving?

General WARD. Sir, I'm often asked: Am I satisfied with that aspect of the restructuring? The answer is "No"; I'm not.

Senator BIDEN. I've never met a Lieutenant General who is satisfied with anything, thank God. But tell me how far off are we before you would be able to say to the Ambassador in Israel: Mr. Ambassador, I think when Abbas sends an order it is likely to get to the police station in Rafah, for example, and be honored.

General WARD. Sir, I think we're much better off today than we were when I arrived there 3 months ago. There is momentum, there is movement to legitimize and institute a chain of command in that structure. I think quite frankly, sir, some of the things that we see today with respect to some of the lawlessness is, in fact, a result of that as some of these traditional power centers are being jumbled, being jeopardized, those who would take issue with that are acting accordingly.

So I believe that there is progress on legitimizing this structure. I think the—an order issued by the President, by the Minister of the Interior, has a far better chance of being implemented throughout the chain of command today, than it was 3 months ago. On a

scale of 1 to 10 I wouldn't want to judge it, but it's something more than—it's in the upper half of that, I would say as opposed to being—

Senator BIDEN. Now a very practical thing, which I know a little more about from years of working with police officers. They have to have a vehicle. They have to have a radio, they have to have a weapon, once that order has been sent down the chain of command. And my understanding is there's not—there's not much of that. I mean literally, just vehicles to be able to take the bad guys that the Palestinians may arrest and put them in prison. Do they even have a working prison now?

General WARD. Sir, again, not by our standards. There are facilities where they can put—

Senator BIDEN. They can detain, but not a—

General WARD [continuing]. Yes, sir; yes, sir. But it's certainly not—it's a different structure is not—

Senator BIDEN [continuing]. And let me put it another way, and you may not want to answer this, and I understand, and maybe you could privately if it is not appropriate to answer it publically. Have any of the material requests you've asked for on behalf of standing up a Palestinian force, that would add to the prospects of a successful disengagement, not been forthcoming? In other words do you issue a report to the Quartet and say, hey look, I can tell you right now, fellas, they only have two vehicles and they need 24 at minimum. Or they don't have communication capability, we need to get this in from here to there. Do you make suggestions like that and if you do, to whom do you make them?

General WARD. I do. Most recently we have provided to the international community, which would include members of the Quartet and others, our assessment based on multiple inputs of some resourcing requirements. We have given that to the international community, have asked for them to come back and give us their ability to contribute, to react to those requirements, that is an ongoing process, sir. There are efforts underway currently through the European Union to bring in those same sorts of equipment vehicles, communications gear. We're working with the Israelis to expedite the delivery of those goods through their port, once that equipment is in, but we continue to provide that type of information and data to the international community.

Senator BIDEN. Well, my time is up. I have a lot more questions. I may submit some to you in writing, General. But let me say, and I'm sure the committee shares my view, I think you're doing a great job. I know you're supposed to rotate back to Europe pretty soon. I don't know if you want to stay, I'm not asking you. But in my observation from hanging around this issue for a while, continuity is pretty important. And I hope—well I just hope there's some continuity. And I appreciate it. The reason I ask the questions, Mr. Chairman, are obvious. One of my criticisms of every administration, is that I don't sense a sense of urgency. You know there's an urgent requirement. All the little things. The little things add up to whether or not this is a success, not the overarching policy goals we're talking about.

Whether or not you got radios. Whether or not a guy that you trust that will, in fact, respond to a central authority in Ramallah

is able to pick up the radio and contact a guy who is near where the action may take place, God forbid. It's a gigantic issue. I mean you know, and so I hope that your recommendations are heeded and heeded quickly, and again I have more questions, but I've gone over my time already, and I thank you very much, General, for doing what you're doing.

The CHAIRMAN. Well, thank you very much, Senator Biden. Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you. Gentlemen, good morning. Thank you for your good work and your leadership, and convey to your colleagues how much we appreciate their efforts as well. General Ward, could you explain the progress being made between the Israeli and Egyptian Governments on the security issues concerning the Gaza-Egyptian border? Obviously, that's going to be a critical component of this effort you have alluded to it, as well as Secretary Welch. But give us your opinion of how those negotiations are going.

General WARD. Sir, I think the current situation along the border, and as it pertains to the future given Gaza disengagement, is encouraging. The level of coordination between the Egyptians and the Israelis with respect to the force along the Palestine corridor, what that force is, how that force will be equipped, and where that force will be positioned, I believe is just about been resolved between the Egyptians and the Israelis and I would suspect that within a matter of days, as I've been told by—by both parties, that they will have those issues resolved that will then put the mechanisms in place for that corridor to be taken by the Egyptians. We will continue to watch that, we'll continue to work with both parties to ensure that they work that to completion to get an agreement that, as the Ambassador pointed out, does not impact the existing treaty arrangements between Egypt and Israel.

The level of coordination between the Israelis and the Palestinians with respect to the Gaza disengagement is likewise favorable. There has been established a series of meetings at three different levels. At the ministerial level, where the Israeli Minister of Defense and the Palestinian Minister of the Interior have met to discuss overwatching parameters for the coordination. There have been meetings at the planning level chaired by general officers from both the Israeli side as well as from the Palestinian side. There have been at least two of those, I believe, within the last couple of weeks. Also characterized as positive meetings by both parties.

And, most importantly, the meetings that will occur on the ground by the commanders who will be in charge of the day-to-day activities, to help ensure that disengagement does not occur under fire. That those meetings likewise have occurred. The good news, Mr. Senator, is that those commanders on the ground have been meeting throughout this period and so there is a relationship that exists there. What we require now is the type of central commitment and direction to those field commanders that will enable them to continue to do effective coordination for movement of forces, employment of forces, positioning of the forces, and awareness of where the requirement is to move a force, in order to pre-

vent some action of occurring that would be detrimental to the process.

Senator HAGEL. Well, that's encouraging, General, and thank you. Secretary Welch, you eluded briefly to this in your testimony and in answer to a question here, but to your knowledge, have all the Israeli settlements' activity ceased?

Ambassador WELCH. We watch this activity as closely as we possibly can, there are a number of concerns we have with respect to settlement activity, the—it's sometimes difficult to distinguish between what's new or previously existing settlements. There's the whole question of the unauthorized outpost, there's a question of some of the associated measures with settlement activity, such as land confiscation, building in certain areas. And then there's the barrier wall which you asked about earlier. In all these areas we do have some ongoing concerns and issues that we raised with the Government of Israel. I think Israel recognizes its obligations under the road map, and we continue to point out to them that not only is it important to understand that those remain and should not be compromised, but even if we have a difference of where we are on the road map, Mr. Senator, we have a concern about settlement activity with respect to its impact on the lives of Palestinians on a daily basis, but also that it might prejudice to get to energizing the road map, or negotiations on final status. The President, President Bush, has addressed this very directly. Both publically and privately with our Israeli friends. And the Secretary of State did so, as well, during both of her trips to the region. This is an ongoing dialog and there remain issues there.

Senator HAGEL. Thank you, Mr. Secretary. What's your assessment of the—Israel's actions today, to remove checkpoints on the West Bank, Gaza, facilitating better entry, more entry, in Israel for Palestinian workers.

Ambassador WELCH. A very pertinent question, sir, both to the process of Gaza disengagement and a situation as it obtains on a daily basis. Perhaps you can also, sir, ask this question of Mr. Wolfensohn when he presents his views. Because I know a lot of his work is designed to address that situation with respect to Gaza and it's one of the major issues between Israel and the Palestinian Authority with respect to Gaza disengagement. As you know from your own travels to the area, this issue of movement of people is a very delicate and sensitive one. There are security implications for Israel on one side. And then there are implications for the Palestinians for their daily lives, for their economic activity, for the social interaction between Palestinian populations, wherever they are.

There has been some turnover of towns pursuant to the Sharm el-Sheikh cease-fire understandings arrived at between Israel and the Palestinian Authority. This issue was also addressed in the recent summit meeting between Prime Minister Sharon and President Mahmoud Abbas. We understand from our Israeli friends that further turnover of towns is contemplated, and that they're seeking to resolve some of the issues, the security issues that arise from that.

General Ward has been involved in that dialog, also, because one part of our effort here, and I think this speaks to Senator Biden's

concern about the urgency and the small steps that are necessary to make sure all this knits together in the most positive outcome possible. One of our steps that we have underway is to remain attentive to trying to facilitate this dialog between Israel and the Palestinian Authority about those Sharm el-Shaykh understandings. Because alongside the Gaza disengagement, there's a very important reality that the security of the West Bank, those parts of the occupied territories is also a highly relevant and immediate concern. And we would like to see more towns turned over, provided that Israel's security needs are in that process, are also addressed.

Senator HAGEL. General Ward, would you like to add anything to that, just briefly, in anyway?

General WARD. No, sir; other than to reiterate the point that the checkpoints to turn over those cities, the freedom of movement, the mobility, are all important factors here, and as the Ambassador mentioned, we work very hard pushing to have those requirements met by the Israelis within their security concerns.

Senator HAGEL. Mr. Secretary, in your opinion, and I will ask Mr. Wolfensohn this as well. How much progress do you believe the Palestinian Authority made on institutional reform? Judiciary reform, transparent finances, pension issues, payroll, some of the more significant dynamics of governance, that are going to be critical. And I would appreciate your assessment. And again, I will ask the former President of the World Bank this same question, thank you.

Ambassador WELCH. Senator Hagel, this is a very, very important aspect of ensuring that this whole process can produce a positive result. To put it bluntly, one of the great difficulties here is the Palestinian Authority does not have capable institutions of governance. As a general matter. Now there are important differences within it's pieces, with respect to their development. Let me say this on the encouraging side. On the encouraging side, I think under their Minister of Finance, Mr. Salam Fayad, they have done a very good job of trying to get their hands around control of the money, the budget, and provide transparency to the international community for how assistance of support is used.

That's very important for the United States, because as you all have mentioned the American taxpayer is a very strong contributor. And the United States is the single number one donor to the Palestinian Authority, to the Palestinian people of assistance. We have made a limited number of exceptions to provide such assistance through the Palestinian Authority itself. And we would not do that unless we had confidence in the measures that Mr. Fayad has put in place. That's on the encouraging side. On the less encouraging side, I think you just had a fairly objective report from General Ward, of where security reform stands. Its as he said, a work in progress. In the middle there are a variety of other institutions, some that function, you know, tolerably well, others that need a lot of improvement. The elections process that some members of this committee intended as observers, that I think was capably handled by the PA authorities, and we believe that those parts of the Palestinian institution of governance could work well for future elections. The justice system, that's an area that needs considerable improvement. I think Mr. Wolfensohn is likely to tell you, and he

knows a great deal more about this than I do, that the donor community international is going to look very carefully at some particular aspects of the institutional immaturity of the Palestinian Authority. So, broadly speaking, I think there are some good signs. There are some worrisome signs, and I would put security foremost among those, and in the middle there's a lot of work to do.

Senator HAGEL. Mr. Secretary, I thank you. General, thank you.

The CHAIRMAN. Thank you, Senator Hagel.

Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman, and I thank the witnesses. Let me ask the Secretary about regional attitudes. Is the regional suspicion that originally met Prime Minister Sharon's commitment to Gaza disengagement subsiding at all? In other words, is Israel getting any credit for taking the steps it's taking in Gaza? Are there any indications that the Arab States recognize the courage that is involved in Israel taking these steps?

Ambassador WELCH. Senator, I want to be candid in answering this. I think the recognition on the part of regional states has—for the importance of this moment, and for their obligation to support potential progress has been uneven at best. Some states, Jordan and Egypt for example, who have peace treaties with Israel, have lent their support in very important ways to making it work. And General Ward mentioned, for example, the negotiations between Egypt and Israel over additional security support along the Gaza-Egypt border. Egypt's also providing training for Palestinian security services. The Jordanians are likewise in a position, not simply to perfect their own border with these territories, but also to provide training support. Most importantly of all both those parties have provided a great deal of political support for the Palestinian Authority under its President Mahmoud Abbas.

Frankly, the performance of other governments in the region has been wanting by comparison. We have been doing a lot of work to bolster that. I think it's going to take much more than the rhetorical support that Senator Biden referred to in his opening remarks. I think there's some practical support that's necessary too. We intend to be very engaged on this. As I said, my bosses have already done some work on it. And we have not, by any means, concluded that work. I expect that Mr. Wolfensohn, when he speaks to you, will lay out his program, and point to a couple of places where the international community including the Arab States could be more supportive. And once we have his presentation and the international community endorses it, then we will lend our weight, very directly, to each and every one of those governments to make sure that they try to move forward on it.

Senator FEINGOLD. Do you take any of this to mean that some of these countries are less suspicious of Sharon's motives?

Ambassador WELCH. Well, you notice my answer casted in support for the Palestinians, and I think that's how they should present it. It would be good and comforting to all of us, were they to endorse Prime Minister Sharon's decision, which we think is a—not only a bold decision, but a responsible one in trying to advance the peace process. But I'm objective and realistic. I would content myself with support for the Palestinians.

Senator FEINGOLD. Do you believe that both the Israelis and the Palestinians have a viable strategy in place for dealing with the actions of those who would be spoilers in any attempt to move toward a two-state solution?

Ambassador WELCH. This is a significant matter, Senator. And in my opening remarks, sir, before you arrived I referred to our concern about Syria's actions. I'll repeat that to you now. We are deeply concerned about the fact that certain Palestinian extremist groups have offices and headquarters in Damascus. And under the circumstances I think that is a dangerous indication of Syrian support for the activities of these groups. And these groups in particular have conducted actions, including recently, that threaten this process that is underway. Apart from that there—we have other concerns with respect to, for example, Iranian support for some of these extremist organizations also.

That is an ongoing concern, and, frankly, I think the General and I, and others involved in this expect that we're going to see more of these kinds of activities because they—some of those who would do this, may be reading into the situation now that this is moving forward. And they want to try to find a way to harm it, interrupt it.

Senator FEINGOLD. I understand Chairman Lugar touched on this point, but I want to discuss it a bit further. Let's assume that disengagement is completed and the process goes reasonably well. Please talk a little bit about the likely pacing and sequencing of the next steps in the peace process. Is there any disagreement among the Quartet about the, what comes next question?

Ambassador WELCH. Sir, the Quartet's road map, which drafted by the members of the Quartet, provides the accepted international standard path forward to energize peace negotiations. It's also been accepted by the Palestinian Authority and the Government of Israel. And we see the Gaza disengagement process as a necessary, but not sufficient condition to activate the road map and get it moving in a real way. But as Secretary Rice likes to say, first things first. We need to keep our eye on the issue right in front of us, and that is to make this process of disengagement succeed. If it goes well, I think our potential for energizing that road map grows.

When we were in Israel several days ago, the Secretary was meeting with Prime Minister Sharon, he declared, again, his commitment to the road map and saw this process as a way to reenergize it. We trust that commitment. Again everybody will have its differences—their differences about what to do under the road map, or where we are on the road map, of what standards have been met, and how well when we get to that point. But the critical thing is to actually arrive at that destination that begins with doing, as Senator Biden said, these things, and small things right now, so that we enhance that potential. Thank you.

Senator FEINGOLD. General, let me ask you a question. Do you believe that President Abbas' strategy of trying to co-op Islamic Jihad and Hamas into the Palestinian Authority's formal governing institutions has any real chance of success? And without disarmament, how can the effect of consolidation of security services and the primacy of the rule of law take hold?

General WARD. Senator, that's a tough question. And I'm not sure I'm prepared to answer it. And I'll tell you why. I don't know if I'd do business that way. But again, with respect to how that society functions, what he must do now to get this calm period—correction—to maintain this calm period, I do not necessarily say that that process won't work. And so I think at this juncture, that is a process that has created an atmosphere that is allowing other things that are important to occur, and, therefore, I think that that particular tactic, that course of action is one that we work with them to make it as effective as it can be. The part that I stress in all of that, is the vetting of these individuals and be assured that these papers that are signed, these commitments that are made, is there a degree of assurance that they would be, in fact, lived up to by those individuals. And in all instances, I get an affirmative to that. So at this juncture I would say that it is a process, it has created a situation on the ground today that has produced some calm, and even though we have these space of activity that occur, I believe they are more attributable to—as the Secretary pointed out, those who do not want to see progress occur and things being done to disrupt this progress, or the potential for the progress. So I would probably leave it at that with respect to these fugitives, and the long-term potential.

I think for now, it seems to be working, and we need something to be working right now.

Senator FEINGOLD. I thank the witnesses. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Feingold.

Senator Chafee.

Senator CHAFEE. Well, thank you very much, Mr. Chairman, welcome gentlemen. I give President Bush a great deal of credit. I believe he's the first President to propose a Palestinian State. And the path to that, of course, is the road map and I, for one, believe that it is in Israel's long-term best interest to have a contiguous viable Palestinian State. I do think it will improve security for Israel, if we're successful at that.

However, as we go forward in the months and years since the President has proposed the road map, there has been a lot of difficulties and, of course, we're here at this hearing, hearing the challenges to the road map. But as we look back, the—Prime Minister Sharon said about 2 years ago in an interview with Newsweek, the interviewer asked him, what do you think of the peace plan and the so-called Quartet, the United States, United Nations, you, and Russia. And he said, oh, the Quartet is nothing, don't take it seriously. There's another plan that will work. And then, last year in October in a controversial interview, the Prime Minister's Chief of Staff talked about the peace plan and said that the plan to withdraw settlers from the Gaza Strip, while expanding its settlement in the West Bank was designed to freeze the peace process.

And he said, when you freeze the process you prevent the establishment of a Palestinian State, and you prevent the discussion on the refugees, the borders in Jerusalem. And he went on to say, effectively this whole package called the Palestinian State with all that it entails has been removed indefinitely from our agenda. And he went on to say the disengagement is actually formaldehyde. It

provides the amount of formaldehyde that is necessary, so there will not be a political process with the Palestinians.

So, in the context of these statements, first Prime Minister Sharon saying, oh no, there's going to be another plan, and the Chief of Staff saying we're going to have essentially another plan separate from the road map, and then the evidence that supports these statements, and Senator Lugar asked about the long pause after Gaza disengagement, and Senator Hagel asked about the settlement expansion. And, Mr. Ambassador, you said, yes, we have concern, but nonetheless it does continue.

So my question is, disavow me of the knowledge—of the perception that the road map really is obsolete and we really should be talking about this other plan that Prime Minister Sharon eluded to a couple of years ago, that it's Gaza withdrawal, it's not a Palestinian, you know, disavow me of that perception.

Ambassador WELCH. Well, sir, let me say this about that. Prime Minister Sharon stood with the President of the United States in Crawford, Texas, a few months ago. And just a few weeks ago, June 19 I believe, with the Secretary of State. And in each instance he committed his Government and Israel to the road map. That remains the plan that Israel has accepted. Like any diplomatic plan or effort, I'm confident that Israel has its own views on what it means and how it would seek to interpret its provisions. So do other parties. And we, of course, have our own. It remains the internationally accepted guide—way forward. And we take the Prime Minister's statements standing with the President of the United States, and with the Secretary of State seriously, as the word—his word and the word of the Government of Israel.

Senator CHAFEE. Okay. If that's—I'll take you at your word also. Now let's go back to the elements of the road map and the road map does call in phase one for the Palestinians to unconditionally end violence, resume security cooperation, undertake the protocol reforms. That has occurred twice. First in the summer of 2003 when Abu Mazen was elevated to a leadership position after the meeting in Aqaba and in a long summer of so-called hudna, they ceased fire, but nonetheless, the other element of that phase one which calls on Israel to withdraw from areas occupied since September 28, 2000, and to freeze all settlement activities, did not occur. And here we are 2 years later, the same opportunities are here under the road map. A long cease-fire, Abu Mazen once again in a leadership position doing the best he can, yet the settlement activities do—which are precluded under the road map—do continue. Am I accurate?

Ambassador WELCH. Well, sir, first I do believe, and I think General Ward's interpretation would be the same as mine. That President Mahmoud Abbas commitment to end violence and stop terror is a serious commitment and a credible statement of his own intent. That was the platform that he ran on for—to be President of the Palestinian Authority and that he was elected on.

We are working with that to expand the opportunity here to move along the road map. I think I have a bit of a difference with you about the current state of activity in that respect however. If Gaza disengagement does proceed, and our understanding from the Prime Minister, and from the Government of Israel is that it will

proceed, despite the political difficulties in getting it moved through their political process and the difficulties we see everyday in terms of the tension it causes within Israel, we're confident it's going to move ahead.

And if that happens, sir, this is the first time since 1967 that that large a portion of the occupied territories will be returned to, we hope, the control of a capable Palestinian entity, Palestinian Authority. In addition there are four settlements in the northern West Bank that are to be abandoned as part of this process, too. So I mean I think that will be a very large testament to their willingness to move along this path. That does not mean that there are not other obligations under the road map, to which we would hold Israel, and to which they have restated their commitment, and we do discuss our views on those directly with them. And we do discuss our views on the—on settlement activity more generally, in a public manner as well. And I think I've repeated earlier what those positions are.

Senator CHAFEE. Thank you, Mr. Ambassador. Once again I reiterate my own feeling, that it's in Israel's long-term-security best interest that there is a viable contiguous Palestinian State and I think it would improve Israel's long term security. Would you agree that the expansion activity, particularly in E-1, Ma'ale Adummim, and Ariel jeopardize the vision of a viable contiguous Palestinian State?

Ambassador WELCH. As I said earlier, we have several concerns with respect to this. But first there are those road map obligations which call for ending settlement activity including natural growth. And we hold Israel to those obligations. Second, we have concern about settlement activity in general whenever it occurs, wherever it occurs, because we believe it impacts the daily lives of people and could potentially prejudice arriving at negotiations on final status. That's a broader concern if you will, it goes beyond the road map obligations they're equally as specific, obviously. And we state those very directly to the Israeli Government with respect to any particular places or issues that arise, including E-1.

Senator CHAFEE. And my last question would be: Can you point to any concrete efforts made to address this part of phase one of the road map? Critical part of phase one of the road map, a cessation of settlement activity, in concrete efforts made by our Government in the years since the road map was proposed, its beyond concern, which you've mentioned several times, concern with it. Is there anything that has actually been done more than just concern?

Ambassador WELCH. Well, Senator, I'm sure that the Government of Israel listens to us on these issues. I believe the word of the President of the United States is a powerful instrument. And when our President and our Secretary of State declare the American position on these matters, I believe it has an important resonance in Israel. And there can be no mistake on the part of the Israeli Government of our views about these matters. I think that's in politics quite a concrete demonstration of our understanding.

Senator CHAFEE. I admire your efforts and everybody that's working so hard on the tremendous challenges we have here. Thank you.

The CHAIRMAN. Thank you very much, Senator Chafee.

Senator Obama.

Senator OBAMA. Thank you very much, Mr. Chairman. Thank you, Ambassador and Lieutenant General for taking the time to be here. Let me just pursue a couple of themes that have already been touched on. You know, first of all, I am very impressed and commend Mr. Sharon for taking the political risks that he's taking with respect to disengagement from Gaza, it's a difficult political task, as well as a logistical task. And I think the Israeli Government's to be commended for taking that risk. And I think we should do everything that we can to support it. I am concerned that there may be a weakening of Abu Mazen's position internally among the Palestinian people to the extent that it does not—that the engagement process and his election does not appear to result in any concrete benefits to the Palestinian people. Immediate signs that their life prospects are improving. And I guess recognizing that there are important and difficult political problems within Israel with respect to the settlers, how can we do a better job of shoring up Abu Mazen's position during this disengagement process if we have this long pause, or any sort of pause in which Sharon feels that it's necessary to take some time just to focus on Gaza disengagement?

In the interim what can Abbas show the Palestinian people they are getting for their patience, during this period?

Ambassador WELCH. It's an excellent question, sir, and I hope I can help answer it for you. First of all we recognize that Prime Minister Sharon's decisions about Gaza disengagement and moving out of the four settlements in the northern West Bank are important and bold political decisions. I think likewise we should recognize that Mahmoud Abbas took a bold political decision in running on a platform of peace. After the death of Arafat, and after a long bitter uprising, where the was loss of life to violence and terror on both sides, in other words, high. Both need to be supported in their decisions. With respect to our support for President Mahmoud Abbas, I think from the outset, we have tried to signal to the Palestinian community at large that this is a moment that if they unite behind this platform for peace and their President, we'll be there to help. This committee has recognized that also by being supportive—the United States being the number one donor of assistance to the Palestinian people. That's an important demonstration of our credibility. President Bush met with President Mahmoud Abbas, first time in his time in office that he has met with the President of the Palestinian Authority and recognized him in that capacity and gave a strong statement of the United States support for the path ahead. And in that statement we also agreed that we would take the extraordinary step of providing some portion of our assistance through the Palestinian Authority, there's another signal of that support.

Our work alone is not going to be sufficient, however, there are two other—well three other communities I think who also must step forward. Obviously, the three of us here are working very hard for the Israeli Government, to see that they too step forward. Because Israel I think has enormous tools at its disposal to effect the kind of support that you're asking about. Second there's the Arab

nations also. Those who have made peace with Israel and those who have yet to do so. And they need to be encouraged and brought into this process as well.

There are also the adversaries of peace, sir, and they need to be contained and moved back.

Senator OBAMA. Let me focus on a couple of points that you've made. I think that's a good summary. With respect to economic aid to the Palestinian Authority, my impression is, is that Finance Minister Fayad has started to put some systems of order and transparency in place, at least within his ministry, or funds that are controlled by his ministry. But there still appears to be a sufficient impression of corruption within the ruling party of the Palestinian Authority. But Hamas is able to exploit some of these issues, running on a platform of anticorruption or being closer to the people. And I'm wondering whether that's an area in which we can be helpful in encouraging further movement in the direction of reform and transparency when it comes to economic aid.

Ambassador WELCH. Yes, sir. We're trying to do that in a couple of directions. First any assistance that we provide through the Palestinian Authority has to be done in a way that's accountable and transparent to us and to a destination that we understand and agree with. So we're not just writing the check and handing it over to anybody no matter how creditable their own efforts are, such as those of Minister Fayad.

Second, your question is also a little bit broader about what to do more generally to bolster the political center, if you will, in Palestinian politics. And do so in a manner that supports the institutions of governance that need to be created for this to be a functioning entity. Rule of law is one clear area for such effort and we do have programs underway designed to support that. And our political positions are also constructed with that in mind. I think General Ward would—I mean he works quite a bit on this, on the administration of justice side. Because a law and order depends not just on a capable police force but on a justice system that works. And the Palestinian has some serious inadequacies in that regard, and part of their being able to address them, is us bringing them to their attention, encouraging others to do the same, and helping them to resolve some of those difficulties.

This is one of those areas of work where the picture is frankly mixed. We are not as confident about some of the steps they're taking in that area, there's a lot of effort that needs to be done. I think we have good partners in the international community, because as Mr. Wolfensohn will say to you later on, this is an area of keen interest to the European Union and other donors to the Palestinian Authority also. And I think an area where we're likely to see further progress.

Senator OBAMA. General, do you want to pick up on this theme in terms of just basic law and order in the Palestinian, the administration of justice, not only how the police forces may be functioning, but also how—how we're making improvements in terms of the prosecution of basic street crime and ways that people feel good about it.

General WARD. Senator, I think that right now is probably the most significant thing for the Palestinian people. What is it about

the Palestinian street that to them says that their homes will be secure. They can be on the street secure. Right now, the efforts for law and order and security are being looked at and addressed, be it from European programs that we, in fact, do monitor and pay attention to, because as the Ambassador pointed out, the linkage between what happens when someone is picked up, then the arrest, the confinement, the trial, et cetera. Those are in fact very weak linkages. And that reform that needs to occur across the security sectors, the judicial reform, reform in the justice, the courts, the lawyers, the judges, all these are aspects of this entire process that is a work in progress. It's being addressed. It's being addressed by predominately male members of the European community who have programs, projects that are trying to reform what's going on within the judicial system.

As the Ambassador pointed out one of my focus areas, is to, at least when they know that there has been an infraction, and someone is, in fact, detained, and picked up, to use even the rudimentary justice system that exists, but use that as a means of demonstrating to the Palestinian people that they are concerned about it. And they just won't turn criminals loose to operate back on the street again. But it requires a lot of work.

Senator OBAMA. Mr. Chairman, could I ask just one more question, very briefly. And that is the issue that was raised earlier about participation of other Arab States, in this entire process. Surely they recognize, at this point, that this is a rare window to try to achieve some stability in the entire region, and to bring about a peace process. I'm curious, Ambassador, maybe you can talk about it. I recognize that Egypt is making some substantial commitments with respect to the security situation in Gaza, but beyond that what should our Arab partners be doing that is not currently being done? And if it's not being done, why isn't it being done and what additional pressure can we apply to make sure that they're investing the resources and engaging in the process sufficiently.

Ambassador WELCH. Well, first, I think it's important to have leadership from Jordan and Egypt, as those are the only Arab States to have concluded peace treaties with Israel. And happily they are leading in that effort.

However, neither Jordan nor Egypt has significant financial resources it can devote to foreign assistance programs. Whereas other Arab countries do. So I would suggest, and we are directly pressing this with the government concerns—government's concern—that there are two important steps. One is political leadership. This is—in our judgement—this is the game in town. And as we have all agreed it is not only the game in town, it is the most urgent one.

And now is the time to show that political support. That comes in both positive ways, in terms of gestures toward Israel, and gestures in support of the Palestinian leadership in this process. But also in ways to convince others, such as Syria, who are meddling around in it, that they should not do that. That that is highly dangerous to their interests. The other point is, is financial support. There are commitments that Arab States have made pursuant to the Arab league that are designed to support the Palestinian Authority.

In our judgement those commitments are modest. And not even those are fully satisfied. The degree of performance among Arab States with respect to those commitments varies. We believe that if the United States, for example, is taking a lead among international donors to the Palestinian authority, and of the magnitude that we are, with American taxpayer dollars, that others within the equivalent level of national interest ought to step forward as well. And there are countries that have the financial wherewithal to do so.

And, Senator, you know this hearing provides us the opportunity to declare that in a way that I'm confident will be read by Arab audiences out there—

Senator OBAMA. So, very specifically, countries like Saudi Arabia or the Emirates.

Ambassador WELCH. That's correct sir.

Senator OBAMA. They have the money, and they're not ponying up enough to make this—

Ambassador WELCH. Actually Saudi Arabia has met its Arab Lead Commitments, so we believe Saudi Arabia could do more in support of this process. So I think so for those countries that have the financial wherewithal to do so, we're asking them to make an extraordinary effort.

The CHAIRMAN. Thank you, Senator Obama.

Senator Biden.

Senator Biden. Just for 10 seconds, Mr. Chairman. I'm going to go to a judiciary committee markup that's going on now, and Mr. Wolfensohn will be on in the next panel. I just wanted to indicate it's not a lack of respect. I'm going to have an opportunity to spend 45 minutes with him this afternoon. And so, Jim, I just want you to know why I'm leaving. I didn't want you to think it was lack of interest. And I will see you this afternoon. Thank you.

The CHAIRMAN. Thank you very much, Senator Biden.

Senator Coleman.

Senator COLEMAN. Thank you, Mr. Chairman. I do think that we have a unique moment of opportunity in the Middle East and I think a couple of courageous decisions have been made that need to be applauded. Certainly the decision of President Sharon in moving forward on Gaza withdrawal. I marvel at the political coalition that he had to form to put it together. I visited him about a year ago, and I asked how he was going to get it done. He just said he'd get it done. But he faced opposition within his own party, and, obviously, tremendous opposition from some of the settlers there. And I think we have to applaud that courage, which has created a moment of opportunity. And I also think that President Abbas' commitment to running on a platform of ending the violence was absolutely critical, and we need to applaud that. My colleague from Rhode Island, in one of his questions, inferred that there have been instances where the first condition needed to be met to move forward on the road map has been the end of violence—the unconditional end of violence, stopping the terrorism. There are folks out there like Hamas, Islamic Jihad, and other terrorist groups that are still not committed to this process, and would like to derail it. Does the Palestinian Authority have the necessary control over

those groups to be able to provide a security guarantee against continued violence?

General WARD. Frankly, Senator, I believe the work being done by the Palestinian Authority, President Abbas, in many respects, is designed to coalesce the leadership of those organizations so that they will, in fact, abide by it. I think there is a—given the coherent—the internal coherence of those factions to a degree determines whether or not that—peace would be adhered to by all members of those factions. In the case of some of them, I think there's probably greater capability than others, and right now I think that there are rogue elements in those factions that are outside the control of any of the leadership within the factions. So I think to have a total ability to control those rogue activities, the answer from my estimation is, "No."

I think there are indications that consensus can be achieved among some of the leaders that will make the calm more sustainable, but I don't think it will total.

Senator COLEMAN. One of the barriers to achieving that consensus has been mentioned. Mr. Secretary, you specifically talked about Syria. And you talked about Palestinian terrorist groups with offices in Syria. So clearly there are parties such as Syria who are not being as supportive in this process, but instead are providing refuge and opportunities for these terrorist groups to operate freely within their borders. What can we be doing vis-a-vis Syria to limit the ability of these groups to operate freely, to raise funds and to organize in Syrian territory?

Ambassador WELCH. We're concerned about Syria's destabilizing influence as I mentioned in the Palestinian territories through these kind of extremist groups. But also, sir, in Lebanon, where although Syrian, foreign Syrian military units have withdrawn, we still have a concern about the exercise of their influence there in unhealthy ways. And in Iraq, where Syria is presently the least protected monitored border of any of the contiguous states to Iraq and with some important and serious consequences for the violence and terrorism that's going on there. So what we've been trying to do is, speak directly to the Syrian Government about these concerns and urge them to be responsive. To speak to other governments including governments that have closer political relationships with Syria. To impress upon them the need for Syrian actions in each of those areas. And then, sir, the administration is also looking at unilateral American measures that we have in our inventory and evaluating those, whether any further ones are appropriate.

Senator COLEMAN. Just to follow up on the Syrian question; you talked about unilateral actions that we can take. In your conversations with the Syrians urging them to be more cooperative, have they not been as responsive as we would like?

Ambassador WELCH. Yes, sir. I would not be highlighting Syrian performance today if I had a different judgment. It's been lacking, both with respect to Lebanon and Iraq, but today we were focusing on the Palestinian territories and that's the one I mentioned in my prepared remarks.

Senator COLEMAN. I would like to follow up on a question from Senator Obama, which asked about the perspective, on the street,

of Palestinians in Gaza. The ex-mayor in me always makes me wonder how the city picks up the garbage. How do officials make the city work? Is there running water? Can you talk to me a little bit about the nature of basic infrastructure services, particularly in Gaza, and what are the things we're doing to address that?

Ambassador WELCH. Well, General Ward does security.

Senator COLEMAN. If you don't pick up the garbage, you're going to have big problems with security.

Ambassador WELCH. Yes, sir, I think that's right. He did say that all these issues were interconnected. If you—I don't know, sir, whether you've visited the Palestinians territories before, but it's—in the West Bank it's quite a bit different than Gaza, Gaza is a very poor and underdeveloped place. The West Bank has—as areas go in that region is relatively better developed. Both areas though have infrastructure. They are—and it does function. It depends to some degree, in some places on Israeli infrastructure too. These are very important needs. Particularly in the water, sewage, electricity areas. And this is probably an area where the international community can concentrate with great effect in the medium term.

These are, I think, the normal expectations of the Palestinian people of their government. And their government has to be seen to be delivering on them. I think they have—currently have the belief that that government is not adequately delivering on those needs. Some part of that they do blame on Israel, because of what they see as the occupation effect, but some part of it they consider to be the Palestinian Authority's responsibility and they have to do better. Mr. Wolfensohn his ideas for the future do include addressing these kinds of needs. And our own assistance projects have been in the past, heavily devoted to those purposes, especially water, housing, and social infrastructure in the east, but also job creation and education.

Senator COLEMAN. And I also want to apologize to Mr. Wolfensohn, because I'm not going to be able to be here for your testimony. But this is an important area. I have deep concerns regarding our ability to work out the security arrangements in Gaza. We can facilitate a successful withdrawal in Gaza, even deal with the security issues in terms of the Egyptian border, but if we don't show the person on the street that somehow there's some benefit to their basic quality of life, I think it's going to be for naught. One of the lessons of Iraq that we're seeing, is that in the insurgents' understanding, if you want to destabilize something, stop the electricity. Stop the picking up of garbage. Stop the delivery of basic services. You can have all the military strength in the world, but you're going to lose because the people are going to feel their lives have become more oppressed rather than more positive. I think my time may be up. At another point in time, Mr. Wolfensohn, I'd like to have the opportunity to visit with you, because I think this is an area that needs certainly greater focus and more effort. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Coleman.

Senator Kerry.

Senator KERRY. Mr. Chairman, thank you very much. I apologize to you and the witnesses for being late. And I apologize to the next panel, because I'm going to leave momentarily because I'm ranking

at another hearing and I need to get back to it. But I'm glad to have a few moments anyway. Secretary Welch, it's great to see you again. Thank you for your many courtesies on a number of occasions as Ambassador to Cairo. I think the last time you and I saw each other was in a car in Cairo traffic and you confided to me you'd be taking on this job, and asked me not to say anything and blow it for you, and I kept part of the bargain. But you're a good man, and you're the right man for this job, and I'm glad you're there. And, General Ward, welcome, glad to have you here.

Secretary Welch, I understand that you said with respect to the Gaza withdrawal, it was a necessary, but not a sufficient, process to reinvigorate the road map. Can you be specific, can you tell us what this administration views as necessary in conjunction, obviously, with what Israel's view of what is necessary to get the road map moving?

Ambassador WELCH. Yes, sir, let me take a stab at that. First thing a statement of the obvious if I may. Gaza disengagement is going to happen, we've been told by the Prime Minister, and I think you have too, Senator, that Israel will proceed with this plan. That being the case it is imperative and urgent that it be seen to work. And that it worked in fact. If that happens then a very significant portion of occupied territory will have been returned to Palestinian control. And if they are effectively in governance of it, and the international communities support—

Senator KERRY. Pressured over what period of time.

Ambassador WELCH. Well, Gaza disengagement is to take place over a period of weeks, sir.

Senator KERRY. When you say, as long as they're governing properly. Is that measured over a—

Ambassador WELCH. I wasn't putting in another marker or measurement for the successful accomplishment of disengagement. Just that the function of Gaza afterward be in fact and perceived as orderly and effective.

That's necessary. Because if that doesn't happen, then I think it's a rather academic debate as to how we get onto the road map, we're all just striving for that, but our jobs will be much harder. Let's assume the best which is what we're working for. In that instance, you have—we foresee that there is a real opportunity to make significant progress here on a wider issue. That doesn't mean that there aren't some serious problems in the very first phase of the road map to be addressed. For example. The road map does call for not just steps to end terror and violence but the accomplishment of dismantlement of terrorist organizations. As General Ward has pointed out that's a significant undertaking, and a work in progress. It's going to take devoted effort to tackle that problem.

If we are at that point however, notwithstanding that challenge, I would be I think quite happy. That would mean that we have a significant effort that has succeeded in Gaza, the political position of the parties could well be entirely different as a result. Much higher level of confidence we would hope, from both Israelis' and Palestinians' part. About looking at what would further would be necessary to really reenergize the peace process. And that's our objective sir.

Senator KERRY. Well, coming back to this dismantlement question. In all the years that I've been following this and chairman and others. There are often these demands that are set up, that are nearly impossible to deliver on. And I think that you need to give some more definition to sort of what that dismantlement is, or isn't. General Ward, specifically, I mean Israel is consistently calling for, and we have called for the dismantlement, it's a goal, we should do it, obviously. But if the ability to move forward depends on President Abbas' ability to quote "dismantle," it seems to me you're setting up one of those, you know, constant contradictions that you can't perform. To the best of my sense of it, it's a reach under any circumstances for President Abbas to disarm them. You might be able to get a cease-fire and neutralize them and hold them for a period of time. But if that becomes the absolute measure of whether you can go forward, aren't we setting ourselves up for potential failure?

Ambassador WELCH. Well, let me initiate the answer, and then ask General Ward if he would like to chime in, Mr. Senator. It's a challenge, of course—

Senator KERRY. I know that it's a challenge, is it realistic, is what I'm asking?

Ambassador WELCH. No, I was going to say that it's one that the Palestinian Authority and its President have set for themselves in the following sense. President Abbas has run on a platform of no violence, no terror. In stating that in his conception this means that there should be one authority, one law, and one instrument of power, one gun in his words.

Senator KERRY. What he wants to do, is try to put his gun in the hands of some of those carrying a different gun today. And there's reluctance by many to see that happen, correct?

Ambassador WELCH. That may be one of the mechanisms he's chosen for now to accomplish—to move toward that objective.

Senator KERRY. Do you support that? Does the administration support that?

Ambassador WELCH. What we support is that there should be calm, no violence, and no terror now. But our objective is, as in the road map, the dismantlement of these organizations if we don't recede from that objective.

Senator KERRY. General Ward, you said that you've presented a list of needs for the Palestinian security forces, to the European community. I was there the day of the election and I've been there a number of times. But I met with President Abbas the day after the election, and his plea to me then was for basic supplies. Just the basics. They didn't even have police cars. They didn't have radios. They didn't have the ability to coordinate security. And at that point in time Hamas clearly had more ability to deliver to the street than Intifadah. When we met with President Abbas, I don't know a few weeks ago when he was here. Same request, 6 months later. I don't get it. I met with the Finance Minister who we all respect, he's, you know, one of the best minds we've seen, I think a straight shooter on the numbers, and we, I think, have confidence in them. And his plea was likewise for the direct kind of infusion of assistance that allows them to deliver.

How can we let so many months go by, now we're putting in a list to the European community, have they responded? If not, what's the response going to be and how do we get this capacity building to the Palestinian Authorities, so there is a legitimate partner to move forward with?

General WARD. Senator, the effort to resource the Palestinians is ongoing. There has been an infusion of resources to the Palestinians. It's not all that they have asked for, nor is it all that they would want. There has been an ongoing—well organized by us, with the Israelis to those things, those items that have come into the ports to get them into the hands of the Palestinians. It includes things like vehicles. It includes things like radios, communication equipment. So there are items that are being going—that are going—

Senator KERRY. Can I ask you why it takes so long. There was no doubt in our mind that President Abbas, all things being equal is going to win. There's never been any doubt that we needed to build up the capacity of Israel to have a legitimate partner to negotiate with. Why does 6 months go by before this maximum infusion takes place so that the Palestinian people begin to see changes in the street that they can grab onto.

General WARD. Sir, I don't know if I can answer that. I've been working with—

Senator KERRY. Does it frustrate you at all?

General WARD. Oh, sir, it does. I wish there were expedited ways through all nations, their bureaucracies, to get things into the hands of the people. It's a challenge that I see and it is frustrating.

Senator KERRY. Mr. Secretary, the first part, the first phase of the road map also calls for Israel to take action on the settlements. When I was going through the West Bank I went by an outpost that is new. I mentioned it to Prime Minister Sharon, I didn't hold back. I asked him about it. I know the administration has raised this issue, but what is happening with respect to the other side's component of the settlement and outpost issue.

Ambassador WELCH. On the unauthorized, or illegal outposts, sir, I think Israel has a commitment to remove those. And my understanding of the status of that is that they have not begun to remove them. On—with respect to settlement activity more generally. That comprises a number of different issues and I've tried to aggregate them all here. Activity in the major population centers, and activity in contiguous areas such as E-1. The course of the barrier wall, the other impositions such as land confiscations or home demolitions that fall into this category as well.

We have a concern about these types of activities as both generally and that is that they are impositions on the daily lives of Palestinians and prejudice the possibility of getting to negotiations. I repeat those concerns publically and privately. There are road map obligations as well where we have asked for Israel to recommit itself that—to the road map to which they—they have endorsed. That has been an object of discussion including at the highest levels when Prime Minister Sharon visited the President at his ranch in Crawford. And it's been an object of discussion when the Secretary of State has gone out there on two trips now, to the area. And when others of us have gone out. Let me just say I think it's

an important factor in this context that Israel has declared that it will leave settlements in Gaza and the settlements in the northern West Bank. That's an important focus of effort right now, and is part of the political context in which we ask Israel to address these other concerns as well.

Senator KERRY. Mr. Chairman, thank you, if I could just say, number one, that I think Prime Minister Sharon has undertaken a gargantuan and difficult political task, and I saw the mood when I was in Israel, it's difficult, even ugly in some ways, and very, very—he's certainly spending a large amount of political capital, and I think we all have enormous respect for that. But I do think it is important, obviously, for us to try to maximize these windows of opportunity and there are many of them. Not the least of which will also be the economic development issue that Jim Wolfensohn's going to address shortly.

The question of the airport, the question of the \$3 billion that Secretary Rice asked from the Arab countries. I know there was a presentation made, I don't know what's come of that. But I think that all of these—you know I hope there's going to be a real frontal diplomatic engagement here to try to maximize this opportunity and not have it marginalized to some degree by the preoccupation with Iraq, and other things in the region, because I think it is linked to what our possibilities may be ultimately in Iraq. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Kerry.

Senator Sununu.

Senator SUNUNU. Thank you, Mr. Chairman, welcome Ambassador. Ambassador, as Senator Kerry and Senator Chafee have noted, while the removal of the four settlements is part of the Gaza withdrawal that will take place, that doesn't change the administration policy of opposing any expansion of settlements, including natural growth, and you've emphasized that. Secretary of State has emphasized that. Let's be on the administration policy, but it doesn't change the observation Senator Kerry made about an illegal outpost that he saw, the references Senator Chafee made to expansion in E-1 and Ariel and activity there, which leads me to the question. Despite the fact that you've reiterated the policy, the Secretary of State has reiterated the policy, the President has reiterated the policy, is there any evidence in any sort of physical response whatsoever that would suggest that the administration's policy on settlements has made any difference at all on the ground, with respect to expansion?

Ambassador WELCH. Well, Senator, I believe they take us seriously. I'm not in a position today in this hearing to parse every aspect of their performance, on that list of things that you have mentioned. And I've tried to mention some others to you which I think are important concerns as well. This is—we have ongoing dialog with the Government of Israel about this. I believe they take our concerns seriously. I don't think that they're dismissing this. In some aspects there is activity to suggest that they've taken notice and measures, for example, on roadblocks and check points. And on the security barriers sir, there are—

Senator SUNUNU. Let me hold you there, because I'll actually come back to those. I appreciate that, this issue as you say with

the barrier, movement of people. But in this case, I was just wondering if there was some action on settlements that might indicate a specific action, specific response to the U.S. policy. Now if the answer is no, it's no. But I respect that doesn't necessarily change the fact that they take us seriously, that this is an issue of concern; it should be. I believe it is an issue of concern for the Israelis and we have obviously been clear on the policy. But I just want to understand whether there's something happening, something occurring in Ariel, in E-1, with regard to illegal outposts that you know—that we as members of the committee should be aware of.

Ambassador WELCH. Well, again, those are different issues and comprise a number of different kinds of things. And I think I indicated in an earlier answer, that with respect to unauthorized outposts, they have not yet removed them. And that's something that they would do under their own laws and procedures. In other instances, sir, the absence of action may also be answer. That is if there's not something occurring, that may be a good thing.

Senator SUNUNU. I guess, I appreciate the response, it could be worse, as a response in this case. But I don't know that that's consolation to those that look at the road map, look at what it's asking for and work to press both sides to meet commitments and I fully respect—as all the questioning has indicated, there are a whole lot of responsibilities on both sides. But I did want to focus on this one, to at least understand from my own perspective as was mentioned before by Senator Chafee, by Senator Kerry, whether or not there had actually been any material improvement or response to the American policy on settlement. Because you mentioned it, and it's an important issue, let me talk about economic growth, it was something Senator Coleman brought up.

No question, movement of workers, individuals, goods in and out of Gaza and the West Bank is very important to the economy of the Palestinian people and important to the economy of Israel. This is an area where I think there's been some progress in planning, there have been funds made available. As you pointed out, there has been action on roadblocks and some of the checkpoints necessary for economics. I think that's a very positive thing. But when the withdrawal of Gaza is complete, as you pointed out, it's a small area. A highly impoverished area. It seems to me it would be very difficult for there to be substantial improvement in the economic conditions in Gaza with no airport, no access to a harbor. And effectively an isolated region except for those checkpoints.

What is being done, what needs to be done to ensure that we don't end up with a strip of land with no access to the sea, no access to the harbor, no access to airport freight, and commercial aviation?

Ambassador WELCH. Well, those are absolutely essential points. For disengagement to succeed—let me say it differently. Part of our definition of success is that Gaza function as a economic entity, and that just means that there has to be access in and out, in a way that helps the economy, not just keeps it where it is. There has to be some economic interaction with the West Bank as well, and there has to be connectivity to Egypt. Those are all—I mean they are some of the most important points to be coordinated, to use the word that's so commonly used nowadays with respect to disengage-

ment between Israel and the Palestinians. But we, the United States have a direct interest. Because this is part of our definition of success too. So is the international community, as you'll hear from Jim Wolfensohn, this is a big priority. With respect to the seaport and airport, those are very different undertakings. The seaport, there really isn't a seaport. That's a longer term project. On the airport, Secretary Rice raised this one when she was last out there 10 days or so ago. And we believe there ought to be a process to address the Palestinians need for an airport. And we think there is a way to look at how that might be done consistent with Israeli security, too. We turned that job over, because it's complicated, to Wolfensohn, and we'll see what we can do in addition to support it.

Senator SUNUNU. Does that fact that you've turned it over to him mean it's an easy job or a tough job?

Ambassador WELCH. No, sir. He's got actually a pretty considerable list of tasks as he will explain to you. It isn't because we're trying to unload the hardest work on him. It's because—to make the best case for Gaza as a functioning economic entity—all these things have to fit together. We believe there is a need for the seaport and the airport. There are different ways to address it. How you come up with the right package is a complicated coordination. On the crossing points I couldn't have been clearer. People have to get in and out. It can't be a situation where a fence is built around the place and folks are left to fester there in the kind of situation they are today.

Senator SUNUNU. Thank you. Final question about politics. Senator Kerry mentioned the Presidential elections and having been there during that period. My sense was most all of the observers appreciated the participation level, the supervision, the coordination with—between—the Palestinians and the Israelis to make those elections a success. Could you comment a little bit about the current state of affairs with the Palestine election law and what you feel the prospects are for successful parliamentary elections in the coming summer months?

Ambassador WELCH. Our observation has been that with respect to the Presidential election and then the municipal elections that the Palestinian Authority conducted these in good order. There was international observation and monitoring. And I think they've reached the same conclusions, sir. And I believe you went as part of this.

Our expectation is for the same in the future. As I understand the legislative situation now, the Legislative Council, has considered a revised election law for 50 percent by list, 50 percent by proportional representation. I don't know whether that has been signed into law yet or not. That's for the format of the next PLC election. The Palestinian Authority leadership has not made a decision yet on when to conduct the election. They're still deliberating that. Their difficulty with having it, last time as they expressed it to us was that, given the circumstances with Gaza disengagement included, that the Election Commission would not be in a position to have things ready to conduct the election when it had been scheduled. So it was postponed by the President. I can check this for you, sir, and provide the answer for the record, but I'm pretty

confident they have not yet made a decision on when to have the election. I am not exactly certain when they will.

Senator SUNUNU. Thank you very much, thank you, Mr. Chairman. Any additional perspective you can provide for the record as to administration response to the structure and the nature of that legislative proposal would be appreciated. Whether you think it will be a step in the right direction in so far as electoral reforms is considered. Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you very much, Senator Sununu. As you recognized from his comments, Senator Sununu has been out there observing elections. That has been true of several of our members. And we've had nine Senators participate, each with well over 10 minutes of questioning to the two of you. We appreciate your testimony and your forthcoming responses. And we look forward to visiting with you again. For the moment, if you have further comments, please deliver those, and then we will proceed to our next witness.

Ambassador WELCH. Thank you very much, Mr. Chairman. Appreciate the opportunity to be here today with you, sir.

The CHAIRMAN. Thank you, Ambassador.

General WARD. Thank you, Mr. Chairman. I have nothing further, sir. Thank you.

The CHAIRMAN. We thank both of you. The Chair now calls upon Mr. James Wolfensohn, the Quartet's Special Envoy for Gaza Disengagement in the Department of State, Washington, DC.

STATEMENT OF JAMES D. WOLFENSOHN, QUARTET SPECIAL ENVOY FOR GAZA DISENGAGEMENT, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. WOLFENSOHN. Mr. Chairman, members of the committee, thank you for the opportunity of being asked to speak before you. And given the wide range of subjects that have already been traversed this morning, perhaps you will permit me not to speak to my testimony, which is before you and which is in the record, but maybe just mobile observations.

The CHAIRMAN. Very well.

Mr. WOLFENSOHN. That may elicit some further comments. Let me first of all say that the Quartet, despite the observations that were made earlier about the reactions of Prime Minister Sharon, as in fact, an active entity at the moment. And I think that the work that we're doing with representatives of all four members now established in an office in Jerusalem is having some affect. And what affect is it that we're having. The first, Mr. Chairman, is that I've now been there three times and will go again the fourth time next week. What we've succeeded in doing is bringing the discussion from trying to agree on agenda to agree those issues which are central to the resolution of the current issues.

And we have both sides now negotiating. Because our belief is that in view of the Quartet or even members of the Quartet are interesting, but what is important is to get the Palestinians and the Israelis to reach an agreement together. And we have set a framework for those discussions increasingly over the weeks, and the dialog between the two parties has increased. I think you and your colleagues know very well the long history in the area. And the

personal relationships that exist at senior levels between Palestinians and Israelis. They know each other very well. Many of them have good friends, the other side. And the bilateral discussions which they have become really at the core of resolving these tough issues. Typically it's not done in large meetings, it's done behind the scenes bringing the active people together. And that, I think, we have succeeded in helping to happen.

The other rule issue applying to every subject is that from the Israeli point of view the fundamental issue is security. From the Palestinian point of view the fundamental issue is economic hope, social progress, respect, a chance to live their lives. And those two aspects really affect a discussion on every issue. From the Israeli point of view, how does it affect our security, and from the point of view of the Palestinians how is this going to affect our lives. And a number of questions by you and your colleagues have addressed this question. What visible differences are going to be on the ground when this takes place. And from my own experience on the Bank, and from your own experience in this committee, I think you know that what people are not interested in is notice of another meeting or another promise. They're interested in seeing houses, jobs, roads, sewers being fixed, water being delivered. This is the evidence of real progress that we have to address. So what have we done, Mr. Chairman? There were some 26 issues when I arrived there and we decided to try to focus the parties on six issues. Because the 26 were interesting, but if you didn't deal with the six you could not make movement forward.

First was the issue of the crossings. You could not have Gaza, and to a lesser extent but still an important impact on the four settlements in the northern West Bank, you couldn't have these created as prisons. And particularly Gaza, which as you know is only 6 percent of the land mass of the Palestinians and has 1,200,000 Palestinians in it, 8,500 Israelis, but 1,200,000 Palestinians. And so the issue of the crossings, particularly in Karni and Erez and the crossing into Gaza which is the crossing—to Rafah—the crossing to Egypt became three central issues. And we are now addressing those subjects and there are very active visits and negotiations going on in relation to each of those three and other crossings. Of special interest is the Egyptian one, because that invokes the question of security and the role of the Egyptians and also the question of customs.

The second point which was also raised earlier is the linkage between Gaza and the West Bank. You have 1,200,000 Palestinians in Gaza, you have 2.4 million in the West Bank. But 94 percent of the territory against the 6 percent to the territory in which Gaza finds itself. So it's been agreed by everybody that there is a need for some permanent linkage between Gaza and the West Bank. And there we're currently looking at a railroad, which will take several years and a sunken highway which would take less time. And also the immediate question of what do you do the day after. How do you have people and goods move backward and forward? And there we're looking at convoys and we're looking at ways in which the Israelis and the Palestinians can come up with methodologies that protect security that allow the use of Israeli roads.

The third item which has been raised here also today is the question of movement in the West Bank. Which is very important for both sides. And there we are trying to bring about now a joint effort on behalf of both the commercial people and the military to try and see what can be done to reduce the number of inhibitions to trading and to movement.

Fourth issue, the airport and seaport as Senator Sununu raised. You must have access and egress. The port has been agreed. That will be a 3-year exercise at least. The airport, which I saw just last week can probably be fixed in 4 or 5 months. And so the question is: Will Israel allow the reconstruction of the airport and the operations of the airport?

There's nothing definitive on this, but I must say that I feel more optimistic about that than I did. And Prime Minister Sharon indicated that planning could commence immediately and further discussions would take place after the withdrawal.

The fifth and sixth questions relate to aspects of the withdrawal which are now taking place, which is: What do we do with the houses, and what do we do with the greenhouses? And those issues are still under discussion. I think there is an agreement between the Palestinians and the Israelis that there's no sense in having the sort of housing, on by the way nearly 30 percent of the land of Gaza, for 8,500 people. When the rest of the territory, there are 1,200,000 who do not anticipate living in that way, and it would be great difficulty, frankly, in probably protecting those houses. And so an agreement was reached on both sides that the best thing to do would be to take them down and allow for a general program of development that would include lower cost housing, adequate housing, proper housing for the refugees, and for those who do not have houses. And have sort of a master plan which is currently being drawn up. The immediate issue now is what happens with the debris. Who removes it and where is it taken to. And so that is causing some complexity. And on the greenhouses, I'd have to say that we're in the middle of negotiations on what we do with the greenhouses.

Those six issues, Mr. Chairman, are real practical issues that need to be solved now if the withdraw is to move ahead. Now in addition to that, there are three other issues which are equally important, but which, in a way, are in the hands of Palestinians and supporters. The first, becoming more and more urgent is the budget deficit for this year. Which the IMF has recently said is somewhere between \$550 and \$650 million. Every year we have a problem with the budget deficit. This year it's quite large. But we really do need to deal with that question in helping Salam Fayad in his efforts to get some funding for that deficit.

The second issue is the issue which many members of this committee have raised, is what happens the day after? And here because of, I think all our experiences, whether it be in Bosnia or Kosovo or East Timor or the Lakes District, or even Iraq. What we are now doing with all the donors and with the Palestinians, is trying to see what is it that we don't just announce, but what is it that can be delivered the day after? We need to create jobs, we need to get people starting on roads, we need to have people see that sewage is being fixed, that water is being connected. That

microcredit is becoming available. That life is different. And I think the international community generally has failed in post-conflict situations. And having been part of it for 10 years I can say that. But we really must make certain that we quickly get benefits to the Palestinians. Both because it's important in a general sense, but second, because immediately after the withdrawal you're going to have two elections at some proximate period after the withdrawal. One the Palestinian, the other the Israelis. As we now believe. If that is true the attention's going to be off; what is being done for the Palestinians is going to be on electioneering. And the only way that we'll be able to keep hope is by having physical evidence of benefit for those people.

And the final point, Mr. President—Mr. Chairman, is the question of the medium and long term. And here again questions have been asked today: What are we going to do to help the Palestinians put themselves in a situation where they can run a state in a two-state solution? And here again, I would say that there's despite the fact that this is a very emotionally charged area, as we all know, the fundamentals are the same for the Palestinians as they are for the Brazilians or the Congolese or the Americans or anybody. You have to have decent government, you have to have a legal system that works. You have to have a financial system that is transparent and provides services, and you must fight corruption. If you don't do those four things you can't run an effective state. And that's true for anybody. It was true for the Chinese 10 years ago. And they've done a lot about it.

And so I've said to the leadership there, let's focus on getting you the minimum conditions which you require to have a state. Then let's have a proper program which takes you out 3 years. Because again our experience shows if you cannot plan a state or a post-conflict restructuring, 3 months to 3 months, you have to do it with some outlook for a period of time. And so it's been my hope that we would be able to get the global community to think in terms of encouraging the Palestinians to come up with this program. To show evidence of their progress. And then provide substantial funding in relation to assisting them to achieve their objectives.

And I have suggested to the President and to the G-8 that they ask for this program to be returned by October. So that we can then set about raising funding, not only from the G-8 but from other developed countries, and most particularly from the Arab world. And it was there that the number \$3 billion was thrown out, up to \$3 billion a year, as an indication that this is not a sideshow. We've all spent a lot of time, me included over 10 years, talking about the importance of Gaza, Israel, and Palestine. But just in terms of the numbers the resources that have been provided have been under a billion a year, on average, for the last 3 years. When I think you know that some hundreds of billions of dollars have been spent on other areas of interest. In fact a thousand billion dollars on military expenditures globally.

So it seems to me that we need to have the Palestinian's recognize their responsibility for good governance and for change. That if they do that then there's the possibility of helping them make this area a viable area. And may I say, also, that implicit in this

is the great need for Israel also to do its side of the bargain, in terms of making the situation one of balance and one of hope.

That, Mr. Chairman, is what I've been doing, and I'd be very happy to answer questions.

[The prepared statement of Mr. Wolfensohn follows:]

PREPARED STATEMENT OF JAMES D. WOLFENSOHN, QUARTET SPECIAL ENVOY FOR
DISENGAGEMENT, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. Chairman and members of the committee, thank you for inviting me to share with you today, progress thus far on Gaza disengagement and my thoughts about the challenges that lie ahead. The United States has a unique role to play in helping to resolve the long struggle between Israel and the Palestinians, and I believe events in the region over the last 6 months make the Israeli disengagement from Gaza a potentially galvanizing moment for change. As the Quartet's Special Envoy for Gaza Disengagement, I am honored to have the opportunity to bring my energy and 10 years of World Bank experience to bear on an issue that is the source of so much conflict.

I have traveled to the region in my current capacity three times since I began nearly 2 months ago, and I depart next week for my fourth visit. I have met extensively with the Israelis and the Palestinians on my visits, and I can say that I am more optimistic now than I was just a month ago. While there remain substantial challenges in the coming months, my experience in the first 60 days gives me hope that the process of disengagement from Gaza can lead both sides back to the road map.

Two of the most critical aspects for successful disengagement will be a restored sense of hope among the Palestinians, and security for the residents of Israel. Palestinians must feel that the day after disengagement they have hope for increased prosperity and opportunity; not that they are living in a prison. The Israelis must believe they will be able to live securely beside a Gaza and West Bank controlled by strong Palestinian institutions. When these needs are met, both sides will be much more likely to live side by side in peace and security.

Throughout the first weeks of meeting with the parties in my new capacity, I have been struck by just how well the two sides have gotten to know each other over the years. Senior Israeli and Palestinian officials have worked together for more than a decade and personal friendships have developed. But rather than create an atmosphere of trust that has moved the two sides forward toward peace, there has instead come to exist a kind of uneasy chess game, where both sides have learned exactly the moves that each will make. The atmosphere surrounding the parties is heavy with mistrust.

I saw it as my first task to find a way to break this unproductive and potentially endless cycle. Much of the debate on disengagement between the parties, since the Palestinian elections, has centered on trying to agree on the terms of the agenda that would form the basis for discussions. The resultant discord and disagreement over the agenda (from Palestinian insistence on inclusions of "Safe Passage" and other Oslo accord issues, to Israeli refusal to even raise the possibility of reopening the Gaza airport) had stymied progress on any real issues. Fortunately this has now changed, and real negotiations have begun.

To bring the sides together, I proposed a set of six key issues the parties must address together, urgently, for disengagement to work. There are an additional three items the Palestinians must accomplish on their own, with international support, if the day after disengagement is to bring hope for the Palestinians and not despair. After many hours of discussions over the last 3 weeks, I am extremely pleased to report the two sides have now agreed to this agenda, and have already begun substantive discussions.

SIX JOINT ISSUES

There are many individual items which will require the continued attention of both sides for disengagement to be an economic success for the Palestinians and assure Israeli security. Of these, the following six will "make or break" the process:

(1) *Border Crossings and Trade Corridors*: Smoothly functioning border points between Gaza and Israel, and in the south at Rafah with Egypt, and shipping methods that make trade profitable for the Palestinians, will be a clear and immediate indication that life is better after disengagement. With the proper application of technology and adoption of good border management principles, the Palestinians can prosper and reap the benefits of free-flowing trade. The Quartet team is working to provide assistance to both sides on materials handling, scanner technology, cus-

toms management, and other essential issues. Both sides will also need to seriously address allegations of corruption at the crossings. The parties met Sunday, June 26, to discuss these issues, and have visited several locations together. I am hopeful that there will soon be agreement on some difficult issues, including the location of disputed crossings and the type of shipping methods that will be used. There is an additional important and difficult issue on the Customs Envelope in relation to the border with Egypt.

(2) *Connecting Gaza with the West Bank*: Free movement of goods and people between Gaza and the West Bank is essential to revitalization of the Palestinian economy. At present, the parties are discussing first, the use of convoys to move goods and people, to possibly be followed by construction of a sunken road and eventually a rail link. The World Bank is currently working with USAID, other donors, and the parties to provide technical advice.

(3) *Movement in the West Bank*: The system of closures and movement restrictions in the West Bank, introduced for security reasons, is disruptive to Palestinian economic recovery, and, as currently structured, may not be optimal for Israeli security. The parties have at this stage agreed to work to review each of the barriers and security measures to determine how the situation can be further eased.

(4) *Air and Seaports*: Both a land and a sea port are needed to give Gaza and the West Bank direct access to third countries. There has been a great deal of movement on these issues since I arrived. The Israelis agree that reconstruction of the Gaza airport could start after a peaceful disengagement, and that work should immediately begin on the construction of a seaport. In each case the issue of security is the subject for further discussion and agreement, but I am satisfied that several alternatives seem possible.

(5) *The Houses in the Settlements*: The existing settlement houses in Gaza do not meet the Palestinians' needs for more open land and higher density housing. At the same time the Israelis are reluctant to leave the structures intact. The parties have tentatively agreed the houses should be destroyed, and are working out the best mechanism to do so. I am hopeful a solution can be found that generates jobs for the Palestinians—whether through removal and processing the rubble, or actually dismantling the houses—as well as creates a reusable resource in the form of processed rubble or salvaged construction materials. Technical issues remain as well as the need for agreement as to where this rubble will be placed.

I want to stress that removal of the houses makes the most sense for both sides, for economic and political reasons. I understand this may seem somewhat counterintuitive to outside observers, but the reality on the ground is that the Palestinians will be best served by a land development strategy of their own design, tailored to meet their specific needs. I hope the details of the overall arrangement to address this issue can be concluded in the coming days.

(6) *The Greenhouses in the Settlements*: Unlike the settler houses, the agricultural assets settlers could leave behind may have value for the Palestinians. From my discussions it is apparent that the settlers are willing to leave the greenhouses, as well as the equipment needed to operate them, if they are provided adequate compensation. The Government of Israel and the settlers are discussing this issue. The Palestinian Authority is unwilling to pay the settlers. It remains for the Israelis to decide whether additional compensation should be paid and how such payment can be funded. I believe the Government of Israel is coming to understand they will need to make this compensation without donor assistance, and that it is a mutually beneficial way to proceed.

CHANGING THE DYNAMIC: THREE PALESTINIAN ISSUES

The Palestinian Government has the ultimate responsibility for creating hope for its people and the conditions under which they can prosper. Only by seriously undertaking key reforms, and continuing to build institutions that can better serve its people, will the Palestinian Authority (PA) strengthen its legitimacy. If the PA takes these steps, the process of disengagement can serve to reinvigorate the road map.

In order for the PA to be successful in its efforts, the Palestinian people must believe their future holds promise—for economic prosperity, dignity, and a return to normalcy. The Israeli people must believe that they are secure, which will then allow for freedom within the territories and the ability to move and to trade with Israel and the outside world. An essential part of providing these conditions will be for the international community to strongly register its support for the short-term resources the PA will need simply to make it through the end of 2005, as well as the medium and longer term support they will need to generate an economic transformation.

I recognize the idea of helping the Palestinians transform their future is not new. But I believe we, as an international community, are currently at a moment when a relatively small amount of support could have a transformative impact. There are three key areas covering the short and medium terms, where donors can support Palestinian reform that will have the greatest impact and be most likely to foster hope for a new future.

(1) *The Palestinian Authority's Fiscal Crisis and a New Social Safety Net*: The PA faces a major recurrent budgetary shortfall for 2005 that must be met through international support. In order to receive this assistance, the PA needs to maintain tight wage discipline in accordance with the existing Wage Bill Containment Plan, reform the public sector pension system, and develop a comprehensive Social Safety Net Program that is fiscally sustainable over time. Moving forward, the PA needs to develop a Fiscal Stabilization Plan for the 2006–2008 period. To ensure fiscal solvency for the PA for the remainder of 2005, international donors, including Arab countries, should make good on all pledges of support. This will allow the PA to manage its current short-term crisis and focus attention on undertaking reforms.

(2) *A Stable Medium-Term Financial Plan for Palestinian Development*: Over the medium term, the PA should create a broad development plan that is linked to a fiscally sound financial plan. This leaves donors with the choice of funding piecemeal programs, or financing a hand-to-mouth operation. I propose that the PA, with the help of the international community, engage in a fully participatory process of developing a consolidated plan, which donors can then approach in a coordinated and comprehensive way.

Support for this plan from the international community, including the Arab countries, must be substantial if the existing dynamic is to be changed. Both sides should receive a clear message that donors stand united in their willingness to use this opportunity to work toward a lasting solution. This support should, of course, be contingent on Palestinian reforms and on security for Israel. I have met separately with many of the G-8 leaders, and will meet in a few days with them together in Gleneagles to solicit their strong endorsement of this approach.

(3) *A Package of Quick-Impact Economic Programs*: Disengagement needs to be accompanied by an immediate, demonstrable change in living conditions if it is to resonate with the Palestinian people. A sharp increase in job opportunities would provide this sense of change and hope. Unemployment in the West Bank and Gaza remains dangerously high, particularly among Palestinian youth. In the short term, jobs can be created by a concerted program of labor-intensive infrastructure and agriculture rehabilitation, urban upgrading and housing construction.

Donors and the PA should meet without delay to develop such a program, for which pledged donor funds already exist and should be rapidly mobilized. Equally important is Palestinian access to work in Israel. If the average daily number of permitted workers crossing into Israel can be raised and consistently maintained at a higher level, this would have a significant stabilizing effect on the Palestinian economy.

The U.S. Congress will be instrumental in helping the Quartet make the plans, I have described here, a reality. I welcome the opportunity to work with you because I know I cannot succeed without your help. I look forward to a fruitful partnership that could bring real change to this long struggle.

The CHAIRMAN. Thank you very much, Mr. Wolfensohn, for your testimony, and equal thanks for your willingness to serve in this capacity, and to provide the perspective that you have developed from a long period of public and private service. Let me just ask, because you've brought up the short-term issue of the deficit of the budget, about the \$650 million you mentioned. Suppose that the Palestinians come forward with a reasonable plan for maybe as much as \$3 billion of support for that type of structure, going down the trail.

From your general survey of attitudes in the world community, is that sort of money out there? In other words, is the glee of confidence in this process, or in the Palestinians, or in all of the above, likely to yield that kind of money? If so, under what conditions? What sort of prospects would be pleasant enough that the donors would come forward?

Mr. WOLFENSOHN. Mr. Chairman, on the deficit this is a problem we have every year. Of course Salam Fayad runs around the world getting \$20 million here and \$50 million there, if he's lucky. And he puts it together. And I don't think that there is anything that will save him that indignity and that need over the next 6 months. And I regard that as a separate issue. This is not the long-term issue. This is because there's been overspending, there's been Intifada. And fiscal responsibility has been very difficult.

The CHAIRMAN. Is there any source of revenue for the Palestinians to begin with? Even besides the deficit, what comes in normally?

Mr. WOLFENSOHN. No, they have built up significantly, Mr. Chairman, their revenues from some few hundred million to over a billion dollars. And for that we have to give enormous credit to Salam Fayad for having done this in a extremely effective way. Just to give you an idea, the revenue figures for 2002 was \$237 million and for 2005 it was a billion and 78. So Fayad has really done a remarkable job in trying to improve the revenue figures.

Also the arrangements with the Israelis have gone much better so that they've had a more ready transfer of funds from customs and taxes. But Salam Fayad has, just to give you an idea on tax revenues. They've gone from \$185 to a number over—if I can get my glasses out, \$538 million last year. Which is a remarkable—

The CHAIRMAN. That's significant information all by itself.

Mr. WOLFENSOHN. It is a remarkable experience, Mr. Chairman. And the nontax revenues which they've had from \$103 to \$367 million. So these are people that have a plan in the next 3 years to become self-sufficient. The Palestinian people at the executive level are really very impressive, I must say. And they're not looking to be long-term borrowers.

Now in relation to your second question. The answer is, there has to be a change of opinion on two things. The first is that money can be given and the corruption will not take it. That is a view that is held in the streets in Palestine, it's a view that is held by donors. And I have to give Salam Fayad great credit for the increased transparency. As part of this plan there is no question that there needs to be the sort of transparent box, Mr. Chairman, in which the money comes in and the donors can see where it is, where it's going. And there are many different methodologies for doing this, but it is part of the plan.

But the second issue is to lift this from the sort of spare change department to being something that is central to peace. My own view is that this is not—if one spends hundred's of billions of dollars on some other area, this is not one-third of 1 percent of the importance of those areas. I'm not saying that this is the cause of terror, but as many of your colleagues have said today it is hugely important in terms of being a catchcry from people to use as a source of how unfair the world is.

And my own judgement is that we have a chance now, one chance of really saying if the Palestinians are going to move forward, and there's going to be security for Israel, which is an essential element in this, that you could think of the Palestinian area of being more like Jordan and the coast, more like other areas of the gulf where there's tourism. Where you could think of a people

that are highly educated, a remarkable people, the Palestinian people. Living not in a state of penury, but in a state of growth. And if ever there was a time in the self-interest of the world, quite apart from the judgement of equity. In the self-interest of the world to try and put this right, it is my judgement that it is now, Mr. Chairman.

And that's where we have to try and convince the wealthy countries and the Arab nations that now is the time to do it. Because if you don't you're going to have a constant problem in the area.

The CHAIRMAN. As regards the points that you've made about the improved transparency and lack of corruption, that is the value of the money actually fulfilling the plan. It is a pretty good plan to begin with, something that has confidence-building in it. I saw in the Financial Times today on what appeared to be an entirely different subject, an article that was discussing aid to Africa. And it was suggesting that whether it be rock stars or statesmen or the World Bank or what have you, clearly the expectations are that large sums are required. But the evidence from two studies was that even though large sums have been expended, very little growth has occurred in most countries from these expenditures.

This goes to the heart of our Millennium Challenge Account idea. There really have to be the conditions there, on the ground, in terms of able governments, quite apart from the creativity of the plans, if good things are to occur. The money is absorbed, but there is greater cynicism about the process than growth of the people involved. This is why I'm hopeful. I ask for your general observation now that you have met with the Quartet members.

Do they generally share the idealism that you have presented today? Likewise, is there any idea that there will be observers from the Quartet as this process moves ahead? In other words: Is this a collective trusteeship of sorts that has been instrumental in getting the plan and the confidence together and maybe even helping with the money? At the same time, can you offer some assurance to the rest of the world, as well as to the donors, that this is making headway?

Mr. WOLFENSOHN. Well, in answer to the first question, Mr. Chairman, I've had enormous support from the Quartet at some three meetings I've been to, including one recently with the Secretary of State and Secretary General. And I think they're persuaded that this is the way to go. Let me rush to say that I'm not saying let's spend \$3 billion immediately. You couldn't spend \$3 billion immediately. And you cannot buy peace. But I want to change the perspective, Mr. Chairman, of this being a sideshow to something that is really of the essence of peace. And I think that I've managed to convince the Quartet of that. And I have to say that I took the initiative with the help of the President—with the G-8. And I have already met with, briefly, the Finance Ministers; at greater length with the Foreign Ministers. And I will now—have now been invited to go Gleneagles to address this matter with the heads of government.

So you never know until it's done. But it is my hope, Mr. Chairman, that we're changing the momentum. The changing the momentum in terms of the resources has equal implications on the part of the Israelis and the Palestinians. Unless they do their part,

each in their own way. The money shouldn't slow and the support probably should not be forthcoming. But I have indications also from the Palestinians of their real willingness to address this issue in a highly professional way.

And I should comment, Mr. Chairman, that the second level of the people in the teams amongst the Palestinians is extraordinarily high. These are people of great confidence, great experience, and enormous academic qualifications as well. There are four women on the team of Mr. Dahlon, who any country should be proud to have in their operation. As there are, of course, also on the Israeli side. So I see some real signs that now is the moment to move.

I've been in this area for 10 years and I've not seen this before. But I also see the urgency, Mr. Chairman. If we do not resolve this question it seems to me that the issue of global terror and peace will not be resolved. And so it's a question of getting people's perspective to change a bit and say let's try to solve this thing which has been going 50 years.

I should make one other point, and that is the huge importance of UNRWA in which this country gives resources. UNRWA has more than 11,000 people, and in a way it's sort of a parallel government. It provides education, healthcare, microcredit, roads, and we often forget it. I often forgot it as president of the Bank because it was operating itself. I think one of the things we need to do, Mr. Chairman, is to work with the new leadership in UNRWA to try and bring together this enormous resource place that exists in UNRWA with the rest of the donor community. And I think that's another big plus that is possible.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. Welcome. If I heard you right just now you're saying that this centrality of this issue and the war on terror, and the urgency of moving this peace process forward is—did I hear you correctly on that?

Mr. WOLFENSOHN. That is my personal view. I'm not a member of the State Department, although I have an office there. So I don't speak with great authority. But as an individual who's been around this game for sometime, it does seem to me that this is a very important issue. And certainly I'm operating on the basis that that is the case.

Senator CHAFEE. And when you use the words sideshow, am I assuming that Gaza is—did not want the withdrawal in Gaza to be considered a sideshow, that it's got to be considered on Gaza first and then on to the West Bank?

Mr. WOLFENSOHN. The role—the view of the Quartet, of which I'm in 100 percent agreement, is that this only makes sense if it is a step toward a settlement which will lead to a two-state solution with security for Israel and with hope and economic possibilities for Palestine. I think everybody believes that, and I certainly do.

Senator CHAFEE. And then doesn't it follow that considering our experience in the difficulties of the 8,000 settlers in Gaza, that's it going to be very difficult with the many, many more numbers in the West Bank. If it's going to be very difficult with 8,000 in Gaza, but many, many—100,000 more the West Bank if we're looking onto that. And so the common sense would dictate why continue to

have these expansion of these settlements if the plan is at some point the dismantling of these settlements in the West Bank. As is going on in Gaza. Why have expansion?

Mr. WOLFENSOHN. Well, I have never suggested that that was part of my plan, Senator. And the President has been very clear on the view of this country and I think it is a view which is correct. I think that the expansion of settlements is something that the President is giving attention to and I would support his efforts.

Senator CHAFEE. Well, thank you for your time and your efforts. A little breath of fresh air to have some optimism. Keep up the good work.

Mr. WOLFENSOHN. Thank you very much.

The CHAIRMAN. Thank you, Senator Chafee.

Senator Sununu.

Senator SUNUNU. Mr. Wolfensohn, you've mentioned the master plan for redevelopment of the land—the settlement land that will be evacuated in Gaza. Could you speak a little bit more specifically about the development of that master plan? Who's primarily responsible for the development, what is your role in particular, and what methods or approaches would make the most sense for financing that plan once it's complete?

Mr. WOLFENSOHN. My role is to stimulate and to think about a master plan. The stage that—

Senator SUNUNU. Does that make you a muse?

Mr. WOLFENSOHN. A muse? I'm not sure, maybe. What it does do is to indicate what is the obvious. If you are getting out of 28 to 30 percent of the land on which 8,500 people lived, and you have 1,200,000 other Palestinian's living in the territory, it is blindly obvious that you need to come up with a plan to use that land, and to use it in the most effective human and economic way. It happens to be on very beautiful coastline; I just drove down and saw it last week. I have been, many times, into Gaza with my World Bank hat on, but it is capable of being an absolutely gorgeous place.

Senator SUNUNU. Will title to the land pass to the PA?

Mr. WOLFENSOHN. That is—

Senator SUNUNU. And is most or all of the land in one contiguous segment on the coastline you mentioned?

Mr. WOLFENSOHN. I don't know the answer to that because there is no answer at the moment. There is controversy over private ownership or PA ownership. It is something that is being reviewed at the moment and I simply cannot give you an answer, because I don't think there is an answer. But what is being looked at, at the moment in a preliminary way, is some people from the gulf were coming in, have studied the area, and are looking at a first shot at a master plan. Which would include housing, which would include tourist areas, would include areas for agriculture. And no one has seen it yet. But if you look at the land, it just cries out for sensible development, and is adjacent to, frequently, these large campsites in which there are hundreds of thousands of people. And so what you want to be sure of is that if housing is going to be taken down that you see some housing being built. And I'd like to see it being built the next day so that it can convey an atmosphere not of destruction, but of construction.

And this, Senator, is really getting to this question of what we can do for them the next day. But what we can do for them the next day should not be random. It should be part of a broader plan. And I think Mr. Dahlan and I think Abu Mazen and the Palestinian Authorities understand this. But they've not yet concluded on the form of that plan, though they have come up with a 3-year financial plan which includes, with the Ministry of Planning, a number of initiatives that they should take. And over the next 2, 3 months what we're going to try and do is to bring together the Ministry of Planning's work with the Finance Ministry's work, together with the master plan and produce all this by October. But it is not ready yet. There's a disconnect.

Senator SUNUNU. I think in your answer you mentioned more participation from some of the gulf states. Could you speak to that point? What role do you see or do you think would be appropriate for some of the regional Arab States, Arab countries which certainly have significant financial resources and have at least dealt in many areas with economic development in this part of the world?

Mr. WOLFENSOHN. Well, my own view is, because I know the gulf and I know the people there pretty well, is that if you could change the atmospherics so that you could have something that was peaceful, you have to start with beautiful land with 1,200,000 people that need housing and jobs. And I think that you'll find that the private sector will come in from the gulf, as will the Palestinian private sector. I've reached out to the Palestinian private sector, which is significant and which operates throughout the Middle East. And one of the groups already got \$700 million there, told me the other day they've got a billion ready to come in, in private sector development.

So my hope would be that when we talk about these large numbers then you probably won't ever pull them down fully. You'll create an environment in which private sector will be encouraged to come in. You will certainly need a higher level of government funding. But I don't think—I think you might be surprised if you had peace, my own judgment is that you'll find businessmen coming in to do quite a lot. And I know the people in the gulf pretty well and interestingly one of the gulf countries is the one that is already doing the master plan.

In response to an earlier question that the chairman asked, I just want to add, Mr. Chairman, the Quartet representatives are now participating in most of the bilateral meetings. So that we're being invited in, it's not that we forced ourselves in, we're being invited in to try and facilitate the discussion between the two sides. So when it's useful we're there, when a couple of people want to go out and have a drink or dinner and beat each other up, we probably prefer not to be there. But we are trying very hard to be constructive, and make sure that any solution is not a Quartet solution. The solution has to be an Israeli-Palestinian solution. And so you don't see our name very much. I think what you want to do is to see the names of the players, not ours. And that's the position we're taking.

Senator SUNUNU. Well, I want to thank you very much and although my reference was in jest, I suppose that the mark of a truly

successful muse is that the work of art is brilliant, but their name never appears on any signature plate. Good luck to you and thank you very much for being here.

Mr. WOLFENSOHN. Thank you.

The CHAIRMAN. Thank you very much, Senator Sununu. Let me just ask Mr. Wolfensohn about the six joint issues that you have identified. Obviously, there are some timeframes on some of these that are fairly urgent, as you've mentioned. These are not long-term things, these are right upfront, whether it be air and the seaports or the houses in the settlements, or even the greenhouses. Who on behalf of the Quartet, or anybody else, is shepherding over these points? From day to day, is anybody giving you progress reports or giving them to the other members of the Quartet?

Mr. WOLFENSOHN. Everyday, Mr. Chairman, I'm getting a report. I'm going straight from here, actually, to the weekly teleconference where we get everybody together. But I get daily reports on what is going on. I will be going back to the region again next week. I'm preferring to go twice a month rather than live there. Because of my judgement that if I live there, I'll get pulled in on every detail, and I don't want to do that. I think it's better to have the first-class operating team, which we're building up. We have offices, we're functioning. We're working very closely with the World Bank and with the other international agencies. With all of whom I've already met.

And we're trying to pull it together, but the simple answer to your question is we've got to deal with the crossings. Because if we don't deal with that we're going to be in terrible trouble. We're going to have to deal with the question of what happens the day after. We're going to have to deal with the question of linkage with Gaza and the West Bank, and have to have interim arrangements with the port so there is not a prison atmosphere. We're going to have to, at an early stage, resolve the airport, but probably after the withdrawal.

So the timeline in a way is described by the subjects and, obviously, we must deal with the houses and the greenhouses. Because the moment that withdrawal starts places they become apparent, not only symbols but parts of the withdrawal process. So everything that we've got down there, Mr. Chairman, has a very, very proximate timeline. And so we're operating with a great sense of urgency at the moment.

The CHAIRMAN. Well, as you've observed and others have, one of the purposes of our committee hearings, such as this one, is oversight, in the sense of asking questions and receiving information from witnesses such as yourself.

It's very important. My guess is that most of us in the Senate, or most Americans viewing all of this, are not really aware of precisely what the Quartet does, not even who the instrumental persons are in this, quite apart from an agenda such as the six points here, or the three points identified by Palestinians.

This is very important in terms of some confidence building in our own country about this process. We hear terms journalistically such as the road map or the Quartet, or peace in our time, or terms of this sort. But the details are extremely important, in terms of any credibility of something happening. So I appreciate your iden-

tifying this very specific agenda and sharing that with us today, as well as your own *modus operandi*, that you will have this teleconference after you leave here. There are ways of staying in touch with the other members so that there is identification of the issues, but the followthrough on your part, the oversight of the Quartet, is literally on your own agenda.

What happens, even as all of this is proceeding, if extremists on either side decide to try to disrupt the plans? Does the Quartet have any mechanism for keeping this thing on track? The reason I ask this is that at various points in the last few years there have been constructive attempts.

But then disruptions occur, or a terrorist attack, retaliation, vows by both sides that so long as this goes on, nothing is going to happen and so forth. Are there any parameters of confidence building measures, so that even in the face of persons who are deliberately disruptive of the process, who don't understand it, who don't want it, and so forth, that somehow or another there's some staying power to this procedure?

Mr. WOLFENSOHN. Well, let me first of all pay tribute to my colleague, Kip Ward, with whom I'm working like a twin. Because I don't think that we can succeed without the security issues, and frankly, I don't think that security will succeed unless there's hope.

The CHAIRMAN. He identified you has his good friend this morning.

Mr. WOLFENSOHN. Well, we are, and we're working very well together. But the overall question, Mr. Chairman, is that there are things that we can plan and try and control. Which even if there was peace would be difficult. But this is the Middle East. And this is the Palestine territories, and it's Israel. And sadly, the more rational people on both sides are all affected by these random and not so random events. And I think that the only thing that we can hope is that there will be a recognition on both sides sufficient that each side will see that it's in their self-interest to keep the temperature down.

I think we've seen some evidence of that recently. When there has been provocations and when the response has been, from either side, more modulated. But the big worry all of us have is if there's some major tragedy. Something that will not allow modulation in response. And we've all seen it, Mr. Chairman. You've seen it, I've seen it. I guess the hope that we all have is that, you know, around 70 percent either side want to get a final settlement and get on with living. And the Palestinian and the Israeli people, I think, broadly want to live in peace beside each other.

But I, unfortunately, no Quartet or nobody I know, can guarantee the 100 percent that we need. So what we're trying to do is to proceed on the basis that there is a plan that makes sense and hope that as provocations occur, good sense will prevail, and we'll be able to get through it. But a day in Israel and in Palestine is like a month anywhere else, Mr. Chairman. With the things that happen there. And I think what you need of people that are realistic, but I think at the moment also optimistic to try and make this thing work. And so if I convey a sense of optimism it is because I think we need some optimism in this. And I think it's so important for our kids that this be done. That we will remain opti-

mistic and as these things happen we'll do our best and deal with them.

The CHAIRMAN. Well, that is an excellent way in which to conclude our hearing, with those thoughts which I'm sure our committee shares, as do the American people who have witnessed your work and appreciate it as we do. Let me just say that we've had almost 3 hours of hearing. You have participated in all of it. We're grateful to you for your testimony and for your participation today. Having said this, the hearing is adjourned.

[Whereupon, at 12:28 p.m., the hearing was adjourned.]

ADDITIONAL QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

RESPONSES OF JAMES D. WOLFENSOHN TO QUESTIONS SUBMITTED FOR THE RECORD
BY SENATOR CHUCK HAGEL

Question. During your testimony, you referred to discussion with the Palestinian and gulf business officials regarding investment in Gaza, including the involvement of a gulf investor in the planning for Gaza's development.

a. Please describe in detail the role you envision for the private sector in Gaza's development.

b. Are you aware of the Aspen Institute's effort to establish a public-private partnership, via a loan fund, to encourage foreign investment in Gaza? Do you support this effort and how can this effort be integrated into your overall effort to promote development planning in Gaza?

c. Please provide, in as much detail as possible, the scope and substance of your discussions with the private sector.

Answer. Generating Private Sector support and engagement—Palestinian, Israeli, and international—in Gaza and the West Bank is essential to the long-term viability of the Palestinian economy. There are several areas where some immediate work can be done, but the most important goal in the short term should be to get immediate tangible projects that provide jobs to Palestinians. I have advised groups, including the Aspen Institute, that speed, reality, and visibility, rather than the long-term size of investments, should be the priority over the next several months. We support the efforts of Portland Trust of the United Kingdom, which is working with OPIC and the Aspen Institute on putting together a substantial program of loan guarantees for the private sector which would be administered through local banks. Support from the European Union is now being sought by them.

I have been very impressed in my meetings with the Palestinian business community that there is a very strong core group that can generate substantial amounts of resources fairly quickly. We have discussed how these businesses can best use their resources in Gaza and in the West Bank, and the impediments to investment. The most obvious issue is, of course, security and a legal framework that is conducive to investment promotion. I am working to raise these issues with the PA, especially the Minister of National Economy and with the Minister of Finance. I believe there is sufficient political will to address many of these issues, and that the PA will seek to build the capacity necessary to do so in the course of developing its master development plan.

As a general principle, I believe that the private sector should be at the center of the development process. I have met with Palestinian groups in Gaza, Nablus, and Jerusalem. Many initiatives from gas transmission and power generation to tourism, housing, and highways have been discussed. In many cases the Israel business community is involved.

Question. What is the current and planned staffing structure of your mission? How much support are you receiving from other members of the Quartet?

Answer. The staff of the Office of the Special Envoy for Disengagement (OSED) in Jerusalem consists of one senior representative from each of the Quartet members, a senior World Bank liaison, several staff officers, and a small administrative support staff. The European Commission, the U.S. State Department, and USAID fund all operation costs for the Jerusalem office, including staff salaries that are not covered by staffers' home institutions. The United Nations administers these funds, assists in the establishment of the office, and is providing vehicles. Russia has committed funds which we estimate to be a minimum of \$500 thousand.

RESPONSE OF JAMES D. WOLFENSOHN TO QUESTION SUBMITTED FOR THE RECORD BY
SENATOR BARBARA BOXER

Question. What role do you see for the Arab States in helping Abbas rehabilitate the Palestinian economy and infrastructure?

Aside from Saudi Arabia, the Arab States provide little financial assistance to the Palestinians. According to the Palestinian Authority, Saudi Arabia provided \$107 million last year; the rest of the Arab countries combined provided only \$15 million. What can be done, if anything to get Arab States to contribute more? And if aid is provided how do we ensure that it does not fall into the hands of terrorists? Do you sense any commitment within the Arab world to helping maintain a long-term peace?

Answer. Building a vibrant and economically sustainable Palestinian economy—along side a secure Israel, and thereby hope for the Palestinians—will require the support of the Arab countries. The entire region has long pledged its solidarity with the Palestinians and cited the need for resolution to the conflict. I believe now is the time for the Arab countries to do their part in bringing about this resolution.

As you know, the G-8 has pledged their support for a program of up to \$3 billion per year in assistance and investment for the next 3 years to the Palestinians. We would hope that between one-third, one-half of annual funding, should come from the Arab world. The PA is beginning work now, with the Quartet team's assistance, to develop a master development plan. Once this process is completed to the point that specific funding needs can be identified, I will visit the Arab countries to obtain their financial support.

The 3-year development plan will be prepared through a participatory process with all Palestinian stakeholders, including private sector and civil society, donors and the Israelis, and will be integrated into the PA's annual budget. A fully transparent mechanism will be established to administer these funds to protect against corruption, and that funds go only to benefit the Palestinian people. There are a number of models that can be used to establish such a mechanism, including World Bank trust funds and USAID's accounting controls. The PA has also, over the last year, instituted financial controls and reforms that approach world-class standards, and they continue to upgrade their capabilities.

