Ladies and Gentlemen, it is good to be among good friends.

Tonight, I would like to talk to you about our nation's most serious and urgent priority – Iraq. Our current policy in Iraq is a failure. We are past the point of an open-ended commitment.

We are past the point of adding more troops. We are past the point of vague policy prescriptions. It is not an answer just to stay. Nor is it an answer -- though it may become a necessity -- just to go, with no concern for what follows.

The fundamental question we must answer is whether, as we begin to leave Iraq, there are still concrete steps we can take to avoid leaving chaos behind. I believe the answer to that question is yes. But I'm equally convinced neither Democrats nor Republicans alone will take those steps. No one wants to be blamed for what might happen next in Iraq. The only way to carve out a new path is through bipartisanship.

With a united voice we can speak with strength to Iraqis on the need to put their house in order, and find political protection here at home. Political leaders in our country must choose to hang together rather than hang separately.

We have every incentive to do so. It is flatly against the security interests of the United States to stay the current course. It also happens to be against the political interests of both parties. Republicans don't want to run for re-election to Congress or for the presidency in 2008 with Iraq around their necks. Democrats do not want to assume the presidency in 2009 saddled with a losing war.

So the incentive is there to work together. But what are the principles of a policy that can bring Democrats and Republicans together -- and start to bring our troops home responsibly? Six months ago Les Gelb, president emeritus of the Council on Foreign Relations, and I proposed a detailed answer to that question. If you are interested in the particulars, please take a look at our website, “www.planforiraq.com.”

We had two basic premises that were clear to us months ago -- and that every passing month makes clearer and clearer: First, the main challenge in Iraq is a sectarian cycle of revenge, for which there is no military solution. Even if every Al Qaeda-inspired terrorist left Iraq tomorrow, we'd still have a major civil conflict on our hands, pitting Sunnis, Shiites and Kurds against one another. Second, putting all of our chips on building a strong central government cannot pay off because there is no trust within the government... no trust of the government by the people... and no capacity on the part of the government to deliver basic services to Iraqis.

Any plan for Iraq must contend with those powerful realities. Our plan does -- and here's how. First, we
argued that the focus of U.S. policy in Iraq must be to help forge a political settlement that gives each of its main groups incentives to pursue their interests peacefully. The most likely form for that settlement is a federalized Iraq, with three or more largely autonomous regional governments to suit the separate interests of Shiites, Sunnis and Kurds. A central government would administer truly common concerns, such as defending Iraq's borders and managing its energy infrastructure. The constitution already provides for this approach and Iraq's parliament recently passed a law to implement its articles on federalism. But for federalism to work, the constitution must be amended to guarantee Sunnis -- who are sand rich but oil poor -- 20% of oil revenues, to be administered by the central government with international oversight. Only with such revenues could a Sunni region become economically and politically sustainable. Why would Shiites and Kurds hand over some of the oil revenues to the Sunnis? Because that's the price of peace -- and only with peace will Iraq attract the massive foreign investment it needs to maximize oil production. Oil can become the glue that holds Iraq together. The final decisions will be up to the Iraqis. But without us helping them arrange the necessary compromises, as we have at every critical juncture, nothing will get done. With 145,000 Americans at risk, we have a right and a responsibility to make our views known. Second, we urged that the U.S. military plan for the redeployment and withdrawal of most U.S. forces by the end of 2007.

Redeployment by itself is not a plan. But it is a good way to get the Iraqis to concentrate on the hard political decisions they must make. We have to make clear to them that the presence of our troops in their present large numbers is not open-ended. We would begin the phased redeployment in the first half of next year, but with no artificial deadline or end date. We would maintain a small residual force in Iraq or in the region whose mission would be counter-terrorism, training, logistics and force protection.

Even if it made strategic sense to keep 145,000 troops in Iraq beyond next year, we could not do so without doing real damage to the volunteer military, including:

- sending soldiers back on third and fourth tours;
- extending deployment times from 12 to 18 months;
- ending the practice of a year at home between deployments;
- fully mobilizing the Guard and Reserves; and
- returning demobilized soldiers to Iraq through a back-door draft.

Over time, the impact on retention and recruitment would be devastating. Third, we have to ignite the most vigorous regional diplomacy to back up the power-sharing deal among Iraqis and avoid neighbors warring over an Iraqi vacuum.

We would convene an international conference and stand up an oversight group of major countries to support a political settlement in Iraq -- or, if chaos ensues anyway, to help contain its fallout within Iraq.

All major Iraqi factions should be included in the conference -- and, as at the Dayton Conference for Bosnia, we should keep them there until all agree to a way forward.

And all of Iraq’s neighbors must be there, too. There can be no sustainable peace in Iraq without them. That
includes not just Saudi Arabia, Jordan, Egypt, and Turkey, but Iran and Syria as well.

Granted, some of Iraq's neighbors have no desire to do us any favors. But like us, they can see the abyss opening up before them, and like us, they all have powerful interests in preventing a full-blown civil war that becomes a regional war.

There's much more to our plan than that – but I wanted to give you the main points.

I believe we have a small but real window of time – maybe four to six months – to build the bi-partisan policy for Iraq I believe we so desperately need.

In two days, the bi-partisan Baker-Hamilton Commission will issue its recommendations. I will reserve judgment on the actual report until I see it.

But I am concerned about news reports on two aspects of the Iraq Study Group’s work.

One suggests that it may miss the most important point: the need for a strategy to build a sustainable political settlement in Iraq. Bringing the neighbors in and starting to get our troops out are necessary, but not sufficient. We need to give each of Iraq’s major groups a way to pursue their interests peacefully. It would be a fatal mistake to believe we can do that solely by building up a strong central government. As I said earlier, that policy has been tried and it has failed.

Second, I’m concerned by reports suggesting that the Iraq Study Group will link a renewed effort to advance the Arab-Israeli peace process with a solution in Iraq. I am not opposed to a vigorous peace process – quite to the contrary, as I will explain in a moment. But the notion that an Israeli-Palestinian peace settlement would end a civil war in Iraq defies common sense.

Israeli-Palestinian peace should be pursued aggressively on its own merits, period. Not as some sort of diplomatic price to make the Arab states feel good so they will help us in Iraq.

I hope that both of these news stories are incorrect, because I truly hope that the Baker-Hamilton report will garner bipartisan support.

Regardless of what it says, right after the New Year, I will focus the Senate Foreign Relations Committee on Iraq, in close collaboration with my Republican counterpart, Senator Richard Lugar.

We will hold intensive and extensive hearings, over many weeks. We won't be wedded to any one plan or proposal. Instead, our mission will be as straightforward as it is vital: to shine a light on what options remain for America to start bringing our troops home from Iraq without trading a dictator for chaos.

That's a goal that unites the vast majority of Americans.

I would like to conclude with some brief thoughts on the two goals that we share and believe are inseparably woven together – the well-being of Israel and the need for a peace settlement.

I am going to say something which may strike some cynics as fanciful. Despite all the difficulties of the past year – from the Hamas victory to the war with Hezbollah over the summer, which incidentally Israel did not
lose – I believe that we may be arriving at a moment where a renewed peace process is possible.

Why do I say this? For two reasons: First, Israel has in place a government and a prime minister that understands that the status quo is unacceptable. Unilateralism is off the table. And indefinite occupation threatens Israel’s Jewish majority. Last week, Prime Minister Olmert made a bold speech and extended Israel’s hand to her Palestinian neighbors, offering to make real and painful concessions on territory and settlements. I commend him for making this gesture at a moment when some might advise him that caution would be better politically.

Second, the Arab states may finally be waking up to the dangerous strategic shifts in the region. To put it simply, the Arabs are terrified of Iran. Not, alas, because of Ahmadinejad’s outrageous anti-Semitic statements and Holocaust denial. But because they are terrified of the role Iran is playing in Iraq, terrified of its support for Hezbollah and Hamas, and terrified of its nuclear program. They see that the stagnation in the region working to the advantage of Iran and its extremist allies. They see their very legitimacy now being challenged by these forces.

This may finally spur them into action. As Samuel Johnson famously observed, “nothing focuses the mind like a hanging.”

The Arabs may finally be willing to take some of the risks they have steadfastly avoided in the past. One manifestation of this is their newfound interest in supporting the Palestinian security forces under Abu Mazen.

This is welcome. But I challenge them to do more – if you mean what you say in the Beirut Declaration – that you are prepared to live in peace with Israel, then please show it. Meet with Israelis. Go to Israel as Sadat did. Take some risks. Otherwise, you may miss yet another opportunity.

Ladies and gentlemen. I have been around for too long to believe that opportunity automatically translates into progress. Nothing will happen without American leadership. Nothing.

Under President Clinton, we had a whole team that worked 24/7 on the peace process -- often it was the President himself. I can’t think of anyone in the current Administration who is solely dedicated to the peace process. And I can’t fathom how our current President has not found the time to visit Israel in the past 6 years.

Yes, we face time-consuming challenges in Iraq, Iran, North Korea, and Afghanistan. But we are the sole superpower. We are Israel’s closest friend. We have an obligation to lead for the sake of peace. Thank you