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Collapse of the Greenback? Will the Dollar get an "Arab Oil Shock"?

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Arab oil producing nations and the some world's largest oil consumers including China and Japan are reliably reported to be secretly planning a long-term exit from pricing their oil trade in dollars. If true, it would spell the death knell for the dollar as world reserve currency and for the USA as global economic power.

Ever since Washington tore up the Bretton Woods treaty in August 1971 and went onto a "dollar paper reserve system" instead of a dollar backed by gold, the United States, as the world's most powerful military power, has been able to dictate financial terms to the world. Nations like Japan and later China, dependent on US export markets, would dutifully invest their trade surplus dollars into US Government debt, in effect financing wars such as Iraq or Afghanistan they opposed. They saw no choice. Arab oil producing countries, under US military pressure, were forced to sell oil only in dollars, a direct prop to the dollar when the US economy was in terminal decline. That may be rapidly about to come to an end.

According to a leaked report from Arab Gulf oil producers, there have been a series of secret meetings in recent months between the major Arab oil producers, including Saudi Arabia, and reportedly also Russia, together with the leading oil consumer countries including two of the three largest oil import countries—China and Japan.

Their project is to quietly create the basis to end a 65-year long "iron rule" of selling oil only in US dollars. As I document in my book, ***Mit der Ölwaffe zur Weltmacht (Kopp Verlag)***, following the 400% oil price shock of 1973, which was deliberately blamed by US media on "greedy Arab Shiekhs," the US Treasury made a secret trip to Riyadh to tell the Saudis in blunt terms that if they wanted US military defense against potential Israeli attack, that OPEC must privately agree never to sell oil in currencies other than the US dollar. That "petrodollar" system allowed the US to run staggering trade deficits and remain the world reserve currency, the heart of its ability to dominate and control world financial markets until the crisis of the sub-prime real estate securitization in August 2007.

The participants in the project reportedly envision using a basket of currencies reflecting producer-consumer trade relations, one backed by gold as a solid backbone. It would not initially be a new currency as some have surmised, but rather an arrangement that would eliminate the risks of pricing oil sales in fluctuating and likely depreciating dollars.

Iran announced recently that in the future it would sell its oil for euros not dollars. According to these reports, the basket of currencies would include a mix of yen, euros, Chinese yuan, gold. Brazil would reportedly join as both a producer and consumer country.

The secret plan was first reported by respected Middle East correspondent, Robert Fisk, in the UK Independent. Fisk claims to have confirmed existence of the plan from Arab as well as Hong Kong Chinese sources. I have confirmed from very senior and well-informed Gulf sources that the talks are in fact real. The oil producing countries have been fed up for years about having to price their oil in dollars or face US reprisals. They are steadily losing as the dollar depreciates against other currencies and against gold. Following the US declaration of the War on Terror by the Bush Administration after September 11, 2001 most leading Arab oil producing countries privately saw US policy as being aggressively aimed at them. The un-justifiable US invasion and occupation of Iraq in 2003 merely confirmed that as well as subsequent US threats against Iran.

Initially various governments involved in the leaked plan have publicly denied vehemently such a plan. That in no way invalidates that such moves are afoot. They are well aware that the United States as a wounded tiger can be far more dangerous. The leak of the plans in the world media, whether every detail reported by Fisk is true or not, feeds what is an inevitable decline in the dollar as a reliable reserve currency for world commerce.

What is not clear is what the potential response of Germany and France, the two pivot powers within the EU will be. If they decide to cast their lot with oil producing and consuming countries, they open their doors to vast new trade and investment potentials from the countries of Eurasia. If they cringe from that and decide to remain with the British Pound and US dollar, they will inevitably sink along as the dollar Titanic sinks.

With that decline of the US dollar goes the lessening of the political power of the United States as sole economic and financial superpower. We face very turbulent waters ahead and gold not surprisingly is gaining in this uncertainty.

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