Iran’s Really Big Weapon

Tehran preparing to open a bourse, and potentially a futures market, where traders can buy and sell oil

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The prospect of a mushroom cloud rising from the Dasht-e-Lut, Iran’s Desert of Stones, may not be Tehran’s greatest threat to international stability. A successful test of an Iranian nuclear weapon at some point in the next few years may prove less destabilizing than a simple free market economic measure that Iran is said to be planning for March of this year. Tehran is preparing to open a bourse, a mercantile exchange and potentially a futures market, where traders can buy and sell oil and gas, along the lines of the International Petroleum Exchange (IPE) in London and the NYTMEX in New York.

The differences are first, that this one would price its energy in euros, not dollars, and second, that it would not use West Texas Intermediate or Brent Crude (from the North Sea) as its standard oil for pricing. It would use a Persian Gulf-produced oil instead.

So what? This sounds like a minor change, and possibly even a useful one, broadening the choice among traders and consumers in the kind of way that Adam Smith, the 18th century father of modern capitalism, would have recommended.

Not so. This could be a far more profoundly punishing blow to American interests than Iran’s ability to manufacture a crude atom bomb that would have little credibility until it became small and stable and reliable enough to be delivered on some putative target.

The relationship between the oil price and dollar is intimate and important, and very useful to the dollar’s highly profitable status as the world’s reserve currency. The prospect of a rival bourse and futures market opens the intriguing possibility, beyond hedging the future oil price, of profitable arbitrage between the euro and the dollar.

And if oil and gas are to be denominated in more than just one currency, why not open the trade to others? Why not denominate the price of a barrel of oil in Japanese Yen, or in Chinese yuan, the currency of the world’s second biggest oil importer?

Why not, in short, end the monopoly rule of the almighty dollar?

Such a move would not be welcomed in Washington, which swiftly moved after the fall of Baghdad in 2003 to reverse Saddam Hussein’s impudent decision to start selling Iraqi oil for euros, rather than dollars. After all, the great benefit of running the world’s reserve currency means that if all else fails, the United States Treasury can just print more and more of the stuff and pay for its oil imports that way.

There are, naturally, limits to the degree to which the United States can debase its currency, as the world found with the first great OPEC price rise of 1973, when the price per barrel tripled. This is usually attributed to the political decision by Saudi Arabia and other Arab oil producers to punish the United States for its decisive support of Israel in the Yom Kippur War. That is partly true, but the crucial OPEC decision was as a direct result of President Richard Nixon's Aug. 15 decision to end the dollar's link to the gold standard.

The dollar declined in value, which meant the OPEC producers received less value for their oil. So at their Beirut meeting on Sept. 22, OPEC adopted resolution XXV:140, which resolved to take "any necessary action … to offset any adverse effects on the per barrel real income of member countries resulting from the international monetary developments as of Aug. 15."

That was also the time when Sheikh Zaki Yamani, the Saudi oil minister, first mentioned the possibility of deploying the ultimate weapon of an oil embargo.

Most of the financial world is currently awaiting another, similar devaluation of the dollar, in response to the monstrous scale of current deficit on the U.S. current account. Writing in the Financial Times last week, Harvard Professor Marty Feldstein suggested that on the basis of the 1985-87 Louvre and Plaza devaluations, the dollar could fall as much as 40 percent or even more.

The markets simply do not know when. But should it come after an Iranian bourse is up and running, some very tidy sums could be made by those playing a dollar-euro trade on Tehran's energy futures market.

The Tehran bourse is listed as an objective for this year in Iran's current five-year plan. The Tehran Times reported July 26 that the final authorizations had been received for the bourse to go ahead. Mohammad Javad Asemipour, the technocrat and former deputy petroleum minister who has been charged with launching the bourse, has made a number of discreet scouting trips to London, Frankfurt, Moscow and Paris.

Just after Christmas, he was quoted by the Iran Labor News Agency saying "transparency in oil transactions would be one of the advantages of having such an establishment "(the bourse), and adding that this would "allow dealers access to related information and promote equal trade opportunities."

Asemipour is an elusive type, but one who seems convinced that Iran can play off the European against the Americans, the euro against the dollar. Just over a year ago, he was quoted in the quasi-official Iran Daily saying that the Europeans have played "a beautiful game" with the United States during the years of sanctions, when they actively participated in economic projects, particularly in the energy sector, across Iran.

"In this game, the Europeans have pretended to be siding with America, whereas they got involved in business here and developed a sort of competition with the Americans," he said. "But in practice, they (the Europeans) have pursued their own interests." There is no shortage of officials in the Bush administration who nurture such suspicions of the French and Germans, despite what seems at the moment to be a common concern about Iran's nuclear ambitions.

The question now is whether the world's traders will come to a Tehran Bourse if and when it opens, bearing in mind that a similar idea in Dubai failed to gain much traction. But that was before oil prices reached $65 a barrel, and before the Dubai's partners in the Gulf Cooperation Council decided it was time to stop glowering at Iran as a potential enemy, and started to invite Tehran to their meetings as an observer. Before, that is, the Arab world began to judge that whatever the American intentions, Iran had become the real winner of the Iraq War.

The world could be about to change much faster than we think, whether or not Iran tests an atomic device. There are other, possibly more devastating weapons available that could hit a financially vulnerable American where it hurts most.

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