Will Iran Sanctions Herald the Fall of the Imperial Dollar?

By Medea Benjamin and Nicolas J. S. Davies
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When the Trump administration unilaterally pulled out of the Iran nuclear agreement in May 2018 and announced it would reimpose sanctions against Iran, the European Union (EU) declared its commitment to preserving the agreement and finding ways for its companies to circumvent U.S. sanctions. Now, eight months later, the Europeans finally announced the creation of INSTEX (Instrument In Support Of Trade Exchanges) as an alternative payment system so that European firms can do business with Iran. This mechanism might be too little and too late to salvage the Iran nuclear deal but it marks a milestone in an inevitable transition of epic proportions: the end of the global hegemony of the dollar.

INSTEX is a complicated mechanism registered in France and headed by a German banker, with shareholders from the three European countries that were signatories to the Iran nuclear deal: France, Germany and the UK. It will initially be used for non-sanctionable trade, such as medicine, food and medical devices, and is also likely to only attract smaller businesses, not large companies with significant exposure to U.S. markets.

It has had an 8-month difficult birth because no one country wanted to claim maternity rights for fear of a U.S. backlash. Indeed, the U.S. threatened to devour it before it was born.

While other countries use economic sanctions as weapons in international disputes, the U.S. is the only country that imposes secondary sanctions on third country citizens and institutions. The U.S. government uses the role of the dollar as an international reserve currency and the central role of U.S. banks and institutions in the international financial system to present third country firms with an insidious either/or choice: cut off business ties with Iran (or Russia, North Korea, Turkey, etc.), or lose far more lucrative business with the U.S. and risk financial penalties in U.S. courts. For most companies, the choice is clear.

The Iranian economy has been devastated as dozens of European companies have abandoned trade deals and investments that had resumed following the signing of the nuclear accord.

It’s not just European companies that have jumped ship. Iran has had bad news from China, too. On December 20th, China’s Bank of Kunlun, which until now has processed most Chinese payments for Iranian oil, announced that it would fully comply with U.S. sanctions and stop processing payments when its current sanctions waiver runs out at the end of April. The bank, which is majority-owned by the China National Petroleum Corporation (CNPC), seems to be prioritizing its business dealings with the U.S. over its relations with Iran.

On the other hand, the CNPC has shelled out a billion dollars to take over Total's share of a contract to develop Iran's South Pars natural gas field, the largest in the world, after the French firm caved to U.S. sanctions. As in other areas of U.S.-China relations, China is clearly making calculated and nuanced decisions about how to respond to the U.S. sanctions regime and its consequences.

For the people of Iran, the recent inclusion of Parsian Bank among a list of 50 Iranian banks subjected to U.S. sanctions has been particularly devastating. Parsian Bank, the largest private sector bank in Iran, had been processing payments for most imports of food, medicines and other humanitarian supplies to Iran. These items are officially exempt from U.S. sanctions, but the Washington Post reported on November 17th that the U.S. action against Parsian Bank was already "choking off medicine imports."

Iranian Foreign Minister Zarif posted on Twitter four letters from European pharmaceutical companies announcing that they were ending operations in Iran. Iran has a large domestic pharmaceutical industry, but many of the raw materials are imported. A woman in Tehran told the Washington Post that her father's medicine for macular degeneration – from Bausch & Lomb in Canada – had already become hard to find, and the price had spiked from $7 to $70.

The U.S. pretext for sanctions against the Parsian Bank is a convoluted chain of relationships that allegedly connect Parsian to the Basij, a paramilitary organization that serves as a reserve corps and police force under the command of the Iranian Revolutionary Guard Corps (IRGC). The Basij polices demonstrations in Iran, and some Basij members have been fighting with the IRGC's elite Quds Force in Syria. The Basij is best known outside Iran for recruiting boys as young as 12 during the Iran-Iraq War in the 1980s to launch "human wave" attacks on Iraqi forces. Today, groups such as Human Rights Watch allege that it recruits Hazara (Shiite) Afghan refugees as young as 14 to fight in Syria.

In a press release entitled "Treasury Sanctions Vast Financial Network Supporting Iranian Paramilitary Force That Recruits and Trains Child Soldiers," the U.S. Treasury laid out its case for sanctioning Parsian Bank as "part of the Basij's economic conglomerate." But the Parsian Bank is only tenuously connected to the Basij via one of its shareholders, the Andisheh Mehvaran Investment Company, which the Treasury alleges is indirectly owned by the Basij. This is akin to alleging that a U.S. corporation is guilty whenever one of its shareholders is accused of a crime.

While sanctions hurt ordinary Iranians, U.S. leaders claim they are intended to force the Iranian government back to the table to negotiate a deal that would ban nuclear weapons forever, end its ballistic missile program, and stop its support for armed groups such as Hezbollah in Lebanon and the Houthis in Yemen. Inside and outside Iran, however, U.S. sanctions are seen as part of a larger strategy for regime change, something key members of the Trump administration, including National Security Advisor John Bolton, talk openly about.

This short-term victory of creating economic chaos, however, is not setting the scene for new negotiations or causing the government to collapse. It is, however, contributing to a growing international frustration that the U.S. can use the power of the U.S. dollar and its financial and judicial systems to tell firms in other countries who they can and can't do business with. This imposition of U.S. sovereignty and control over people and firms in third countries is deeply resented overseas.

As economist Jeffrey Sachs told Business Week,

> "Europe and China have banks. One of these days, the U.S. is going to talk the dollar right out of its international role."

Already, 87 countries, including many traditional U.S. allies, have joined the Chinese-led Asian Infrastructure Investment Bank, which operates independently of the the dollar-based financial system.

Europe's new mechanism for circumventing U.S. sanctions may or may not work, but the extraterritorial reach of U.S. sanctions on Iran and other nations is certainly hastening the day when the rest of the world will develop a multipolar financial system that no one country can use as an illegitimate tool of imperial power. This will gradually force the U.S. to find a new place in a post-imperial, multipolar world that it cannot dominate by military force or economic warfare.

As our deluded leaders escalate their economic warfare against other countries, not least Cuba and Venezuela, it's a good time for Americans to start thinking about how we can instead cooperate with all our neighbors in a smooth, peaceful transition to a sustainable, multipolar world.

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Medea Benjamin is the co-founder of CODEPINK: Women for Peace, and the author of Inside Iran: The Real History and Politics of the Islamic Republic of Iran. Follow her on Twitter: @medeabenjamin

Nicolas J S Davies is the author of Blood On Our Hands: the American Invasion and Destruction of Iraq. He is a researcher for CODEPINK: Women for Peace, and a freelance writer for independent, non-corporate media.