

No, the Iran Oil Bourse is not a casus belli...

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A number of writings have recently appeared with the thesis that the announced plans of the Teheran government to institute a Teheran Oil Bourse, perhaps as early as this month, is the real hidden reason behind the evident march to war on Iran from the Anglo-American powers. The thesis is in our opinion mistaken for many reasons, not the least, that war on Iran has been in planning since the 1990's, as an integral part of the US Greater Middle East strategy.

More significantly, the Oil Bourse argument is a Red Herring that diverts attention from the real geopolitical grounds behind the march towards war which have been detailed on this website, including my piece, *'Calculating the Risk of War in Iran'* which was posted on [GlobalResearch.ca](#) on January 29, 2006

In 1996, Richard Perle and Douglas Feith, two neo-conservatives later to play an important role in formulation of Bush Administration Pentagon policy in the Middle East, authored a paper for then-newly-elected Israeli Prime Minister, Benjamin Netanyahu. That advisory paper, *'A Clean Break: a New Strategy for Securing the Realm,'* called on Netanyahu to make a 'clean break from the peace process.' They also called on Netanyahu to strengthen Israel's defenses to better confront Syria and Iraq, and to go after Iran as the prop of Syria.

More than a year before President Bush declared Operation Shock and Awe against Iraq, he made his now infamous January 2002 State of the Union address to Congress in which he labelled Iran, along with Iraq and North Korea, as the 'Axis of Evil' trio. This was well before anyone in Teheran was even considering establishing an oil bourse to trade oil in various currencies.

The argument by those who believe that the Teheran Oil Bourse would be the casus belli, the trigger pushing Washington down the road to potential thermonuclear annihilation of Iran, seems to rest on the claim that by openly trading oil to other nations or buyers in Euros, Teheran would set into motion a chain of events in which nation after nation, buyer after buyer, would line up to buy oil no longer in US dollars but in Euros. That in turn, so goes the argument, would lead to a panic selling of dollars on world foreign exchange markets and a collapse of the role of the dollar as reserve currency, one of the 'pillars of Empire.' Basta! There goes the American Century down the tubes with the onset of the Teheran Oil Bourse...Reality is a little different.

Some background considerations

That argument fails to convince for a number of reasons. First, in the case of at least one of

the Oil Bourse theory writers, their argument is based on a misunderstanding of the process which I described in my book, ***A Century of War***, regarding the creation in 1974 of 'petrodollar recycling' in the wake of the orchestrated 400% OPEC oil price hike, a process with which then-US Secretary of State Henry Kissinger was deeply involved.

The dollar then did not become a 'petrodollar' although Kissinger spoke about the process of 'recycling petrodollars.' Instead what he referred to was the initiation of a new phase of US global hegemony in which the 'petrodollar' export earnings of OPEC oil lands would be recycled into the hands of the major New York and London banks and re-lent in form of dollar loans to oil deficit countries like Brazil or Argentina, creating what soon came to be known as the Latin American Debt Crisis.

The dollar at that time had been a fiat currency since August 1971 when President Richard Nixon first abrogated the Bretton Woods Treaty and refused to redeem US dollars held by foreign central banks for gold bullion. The dollar floated against other major currencies, falling more or less until it was revived by the turbo change of the 1973-4 oil price shock.

What the 1973 oil shock achieved for the sagging dollar was a sudden injection of global demand from nations confronted with 400% higher oil import bills. At that time, by postwar convention and convenience, as the dollar was the only reserve currency held around the world other than gold, oil was priced by all OPEC members in dollars as a practical exigency.

With the 400% price rise, nations such as France, Germany, Japan and other importers suddenly found reason to try to buy their oil directly in their own currencies—French Franc, German Deutschmarks or Japanese Yen—in order to lessen the pressure on their rapidly declining reserves of trade dollars. The US Treasury and Pentagon made certain that did not happen, partly with some Kissinger secret diplomacy, bullying threats, and a whopping big US military agreement with the key OPEC producer, Saudi Arabia. At that time it helped that the late Shah of Iran was seen in Washington to be a vassal of Kissinger.

The point was not that the dollar became a 'petro' currency. The point was that the reserve status of the dollar, now a paper currency, was bolstered by the 400% increase in world demand for dollars to buy oil. But that was only a part of the dollar story. In 1979, following the accession to power of the Ayatollah Khomeini in Iran, oil prices shot through the roof for the second time in six years. Yet, paradoxically, later that year the dollar began a precipitous free-fall, not rise. It was no 'petrodollar.'

Foreign dollar holders began dumping their dollars as a protest to the foreign policies of the Jimmy Carter Administration. It was to deal with that dollar crisis that Carter was forced to bring in Paul Volcker to head the Federal Reserve in 1979. In October 1979 Volcker gave the dollar another turbo-charge by allowing interest rates in the US to rise some 300% in weeks, to well over 20%. That in turn forced global interest rates through the roof, triggered a global recession, mass unemployment and misery. It also 'saved' the dollar as sole reserve currency. The dollar was not a 'petrodollar.' It was the currency of issue of the greatest Superpower, a superpower determined to do what it needed to keep it that way.

The F-16 dollar backing

Since 1979 the US power establishment from Wall Street to Washington has maintained the status of the dollar as unchallenged global reserve currency. The role, however, is not a purely economic one. Reserve currency status is an adjunct of global power, of the US

determination to dominate other nations and the global economic process. The US didn't get reserve currency status by a democratic vote of world central banks, nor did the British Empire in the 19th Century. They fought wars for it.

For that reason, the status of the dollar as reserve currency depends on the status of the United States as the world's unchallenged military superpower. In a sense, since August 1971 the dollar is no longer backed by gold. Instead, it is backed by F-16's and M1 Abrams battle tanks, operating in some 130 US bases around the world, defending liberty and the dollar.

A Euro challenge?

In order for the Euro to begin to challenge the reserve role of the US dollar a virtual revolution in policy would have to take place in Euroland. First the European Central Bank, the institutionalized, undemocratic institution created by the Maastricht Treaty in order to maintain the power of creditor banks in collecting their debts, would have to surrender power to elected legislators. It would then have to turn on the Euro printing presses and print Euros like there was no tomorrow. That is because the current size of the publicly-traded Euroland government bond market is still tiny in comparison with the huge US Treasury market.

As Michael Hudson explains in his brilliant and too-little studied work, 'Super Imperialism,' the perverse genius of the US global dollar hegemony was the realization, in the months after August 1971, that US power under a fiat dollar system was directly tied to the creation of dollar debt. The debt and US trade deficit was not the 'problem,' they realized. It was the 'solution.'

The US could print endless quantities of dollars to pay for foreign imports of Toyotas, Hondas, BMW's or other goods in a system in which the trading partners of the USA, holding paper dollars for their exports feared for a dollar collapse enough to continue to support the dollar by buying US Treasury bonds and bills. In fact in the thirty years since abandoning gold exchange for paper dollars, the US dollars in reserve have risen by a whopping 2,500% and grows at double-digit rates today.

This system continued into the 1980's and 1990's unchallenged. US policy was one of crisis management coupled with skilful and coordinated projection of US military power. Japan in the 1980's, fearful of antagonizing its US nuclear umbrella provider, bought endless volumes of US Treasury debt even though they lost a King's ransom in the process. It was a political, not an investment decision.

The only potential challenge to the reserve role of the dollar came in the late 1990's with the European Union decision to create a single currency, the Euro, to be administered by single central bank, the ECB. Europe appeared to be emerging as a unified, independent policy voice of what Chirac then called a multi-polar world. Those multi-polar illusions vanished with the unpublicized decision of the ECB and national central banks not to pool their gold reserves as backing for the new Euro. That decision not to use gold as backing came amid a heated controversy over Nazi gold and alleged wartime abuses by Germany, Switzerland, France and other European countries.

Since the shocks of September 11, 2001 and the ensuing declaration of a US global War on Terror, including a unilateral decision to ignore the United Nations and the community of

nations and go to war against a defenceless Iraq, few countries have even dared to challenge the dollar hegemony. The combined defense spending of all nations of the EU today pales by comparison to the total of current US budgeted and unbudgeted defense spending. US defense outlays will reach an official, staggering level of \$663 billion in the current Fiscal 2007 year. The combined EU spending amounts to a mere \$75 billion, with tendency declining, in part owing to ECB Maastricht deficit pressures on its governments.

So today, at least for the present, there are no signs of Japanese, EU or other dollar holders engaging in dollar asset liquidation. Even China, unhappy as she is with Washington bully politics, seems reluctant to rouse the American dragon to fury.

The Origins of the Oil Bourse

The idea of creating a new trading platform in Iran to trade oil and to create a new oil benchmark crude apparently originated with the former Director of the London International Petroleum Exchange, Chris Cook. In a January 21 article in the *Asia Times*, Cook explained the background. Describing a letter he had written in 2001 to the Governor of the Iranian Central Bank, Dr Mohsen Nourbakhsh, Cook explained what he advised then:

'In this letter I pointed out that the structure of global oil markets massively favors intermediary traders and particularly investment banks, and that both consumers and producers such as Iran are adversely affected by this. I recommended that Iran consider as a matter of urgency the creation of a Middle Eastern energy exchange, and particularly a new Persian Gulf benchmark oil price.'

'It is therefore with wry amusement that I have seen a myth being widely propagated on the Internet that the genesis of this "Iran bourse" project is a wish to subvert the US dollar by denominating oil pricing in euros.'

'As anyone familiar with the Organization of Petroleum Exporting Countries will know, the denomination of oil sales in currencies other than the dollar is not a new subject, and as anyone familiar with economics will tell you, the denomination of oil sales is merely a transactional issue: what matters is in what assets (or, in the case of the United States, liabilities) these proceeds are then invested.'

A full challenge to the domination of the dollar as world central bank reserve currency entails a de facto declaration of war on the 'full spectrum dominance' of the United States today. The mighty members of the European Central Bank Council well know this. The heads of state of every EU country know that. The Chinese leadership as well as Japanese and Indian know that. So does Vladimir Putin.

Until some combination of those Eurasian powers congeal in a cohesive challenge to the unbridled domination of the USA as sole superpower, there will be no Euro or Yen or even Chinese Yuan challenging the role of the dollar. The issue is of enormous importance, as it is vital to understand the true dynamics bringing the world to the brink of possible nuclear catastrophe today.

As a small ending note, a good friend in Oslo recently forwarded me an article from the Norwegian press. At the end of December, Sven Arild Andersen, Director of the Oslo Bourse, announced he was fed up with depending on the London oil bourse trading oil in dollars. Norway, a major oil producer, selling most of its oil into Euro countries in the EU, he said,

should set up its own oil bourse and trade its oil in Euros. Will NATO member Norway become the next target for the wrath of the Pentagon?

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