Petrodollar Theories of the War

A small but significant number of observers consider the issues around which the newspaper discussions of the Iraq war revolve to be nothing but a screen that hides other causes fueling the present conflict -- causes that require some knowledge of economics to grasp. According to this view, a leading motive of the U.S. in the Iraq war -- perhaps the fundamental underlying motive, even more than the control of the oil itself -- is an attempt to preserve the U.S. dollar as the leading oil trading currency, on the view that the institution of petrodollars, as these have developed since the early 1970s, is fundamental to well-being of the U.S. economy.

A corollary of this view is that the real underlying antagonism in the conflict is not a military or geopolitical or national-security issue between the U.S. and Iraq, but rather an economic struggle between the U.S. and Europe.

Below are three such arguments and a link to a fourth. The first two pieces are by Canadians and the third is by an Australian. (Following these pieces is a link to a less expert analysis by an American who is a self-confessed novice in analyzing international affairs.)

1. AMERICA'S WAR AGAINST EUROPE

Paul Harris
YellowTimes.org Columnist (Canada)
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There are many reasons for George Bush's single-minded drive toward Baghdad. In other articles I have written for YellowTimes.org I hinted that a not so obvious reason for the drive against Iraq is Bush's war against Europe. In fact, I have now come to believe that is the primary reason for his Iraqophenia.

Whenever a nation decides to go to war, there are plans made for who is going to win and who is going to lose; no one goes to war expecting to lose but it isn't always the obvious target of the aggression that is the real thrust behind the war. Sometimes, it isn't a case of what you expect to win from a war but rather a case of what you hope someone else loses; and it doesn't have to be your stated enemy who you hope will sustain the losses.

In this case, Bush's hoped-for victim is the European economy. It is robust, and is likely to become much stronger in the easily foreseeable future. Britain's entry into the European Union is inevitable; Scandinavia will join sooner rather than later. Already, even without those countries, there will be 10 new member nations in May 2004 which will swell the GDP of the E.U. to about $9.6 billion with 450 million people as against $10.5 billion and 280 million people in the United States. This represents a formidable competing block for the United States but the situation is significantly more complex than what is revealed just by those numbers. And much of it hinges on the future of Iraq.

I have written before, as have many others, that this upcoming war is about oil. To be sure there are other reasons, but oil is the single most impelling force. Not in the way you might expect, however. It isn't so much that there are believed to be huge untapped oil reserves in Iraq, untapped only due to outdated technology; it isn't so much an American desire to get its grubby hands on that oil; it is much more a question of whose grubby hands the Americans want to keep it out of.

What precipitated all of this was not September 11, nor a sudden realization that Saddam was still a nasty guy, nor just the change in leadership in the United States. What precipitated it was Iraq's November 6, 2000 switch to the euro as the currency for its oil transactions. At the time of the switch, it might have seemed daft that Iraq was giving up such a lot of oil revenue to make a political statement. But that political statement has been made and the steady depreciation of the dollar against the euro since then means that Iraq has derived good profits from switching its reserve and transaction currencies. The euro has gained about 17 percent against the dollar since that time, which also applies to the $10 billion held in Iraq's United Nations "oil for food" reserve fund.

So the question arises, as it did for George Bush, what happens if OPEC makes a sudden switch to euros? In a nutshell, all hell breaks loose.

At the end of World War II, an agreement was reached at the Bretton Woods Conference which pegged the value of gold at $35 per ounce and that became the international standard against which currency was measured. But in 1971, Richard Nixon took the dollar off the gold standard and ever since the dollar has been the most important global monetary instrument, and only the United States can produce them. The dollar, now a fiat currency [i.e., "money that is made legal tender by the decree, or fiat, of the government but that is not covered by a specie reserve" (*Columbia Encyclopedia*, 6th ed.)], is at a 16-year trade-weighted high despite record U.S. current-account deficits and the status of the U.S. as the leading debtor nation. The U.S. national debt as of April 4, 2002 was $6.021 trillion against GDP of $9 trillion.

Trade between nations has become a cycle in which the U.S. produces dollars and the rest of the world produces things that dollars can buy. Nations no longer trade to capture comparative advantage but rather to capture needed dollars to service dollar-denominated foreign debts and to accumulate dollar reserves in order to sustain the exchange value of their domestic currencies. In an effort to prevent speculative and potentially harmful attacks on their currencies, those nations' central banks must acquire and hold dollar reserves in amounts corresponding to their own currencies in circulation. This creates a built-in support for a strong dollar that in turn forces the world's central banks to acquire and hold even more dollar reserves, making the dollar stronger still.

This phenomenon is known as "dollar hegemony," which is created by the geopolitically constructed peculiarity that critical commodities, most notably oil, are denominated in dollars. Everyone accepts dollars because dollars can buy oil.

The reality is that the strength of the dollar since 1945 rests on being the international reserve currency for global oil transactions (i.e., "petro-dollar"). The U.S. prints hundreds of billions of these fiat petro-dollars, which are then used by nation states to purchase oil and energy from OPEC producers (except presently Iraq and, to some degree, Venezuela). These petro-dollars are then re-cycled from OPEC back into the U.S. via Treasury Bills or other dollar-denominated assets such as U.S. stocks, real estate, etc. The recycling of petro-dollars is the price the U.S. has extracted since 1973 from oil-producing countries for U.S. tolerance of the oil-exporting cartel.

Dollar reserves must be invested in U.S. assets which produces a capital-accounts surplus for the U.S. economy. Despite poor market performance during the past year, U.S. stock valuation is still at a 25-year high and trading at a 56 percent premium compared with emerging markets. The U.S. capital-account surplus finances the U.S. trade deficit.

Since it is the U.S. that prints the petro-dollars, they control the flow of oil. Period. When oil is denominated in dollars through U.S. state action and the dollar is the only fiat currency for trading in oil, an argument can be made that the U.S. essentially owns the world's oil for free.

So what happens if OPEC as a group decides to follow Iraq's lead and suddenly begins trading oil on the euro standard? Economic meltdown. Oil-consuming nations would have to flush dollars out of their central bank reserves and replace them with euros. The dollar would crash in value and the consequences would be those one could expect from any currency collapse and massive inflation (think of Argentina for an easy example). Foreign funds would stream out of U.S. stock markets and dollar denominated assets, there would be a run on the banks much like the 1930s, the current account deficit would become unserviceable, the budget deficit would go into default, and so on.

And that's just in the United States. Japan would be particularly hard hit because of total dependence on foreign oil and incredible sensitivity to the U.S. dollar. If Japan's economy tumbles, so does that of many other countries, especially the United States in a crescendo of dominos.

Now this is the potential effect of a "sudden" switch to euros. A more gradual shift might be manageable but even that would change the financial and political balance of the world. Given the size of the European market, its population, its need for oil (it actually imports more oil than the U.S.), it may be rapidly approaching that the euro will become the de facto monetary standard for the world.

There are some good reasons for OPEC as a group to follow Iraq and begin to value oil in euros. There seems little doubt that they would relish the opportunity to make a political statement after years of having to kowtow to the U.S., but there are solid economic reasons as well.

The mighty dollar has reigned supreme since 1945, and in the last few years has gained even more ground with the economic dominance of the United States. By the late 1990s, more than four-fifths of all foreign exchange transactions, and half of all world exports, were denominated in dollars. In addition, U.S. currency accounts for about two thirds of all official exchange reserves. The world's dependency on U.S. dollars to pay for trade has seen countries bound to dollar reserves, which are disproportionately higher than America's share of global output.

It is important to note that the euro is not at any disadvantage versus the dollar when one compares the relative sizes of the economies involved, especially given the E.U. enlargement plans. Moreover, the E.U. has a bigger share of global trade than the U.S. and while the U.S. has a huge current account deficit, the E.U. has a more balanced external accounts position. One of the more compelling arguments for keeping oil pricing and payments in dollars has been that the U.S. remains a large importer of oil, despite being a substantial producer itself. But the EU is an even larger importer of oil and petroleum products than the U.S., and represents for OPEC a more attractive market, closer and less domineering.

The point of Bush's war against Iraq, therefore, is to secure control of those oil fields and revert their valuation to dollars. Then to increase production exponentially and force prices to drop. Finally, to threaten significant action against any of the oil producers who would switch to the euro.

In the long run, then, it is not really Saddam who is the target; it is the euro and, therefore, Europe. There is no way the United States will sit by idly and let those upstart Europeans take charge of their own fate, let alone of the world's finances.

Of course, all of this depends on Bush's insane plan not becoming the trigger for a Third World War, as it so readily might.

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2. BUSH'S DEEP REASONS FOR WAR ON IRAQ: OIL, PETRODOLLARS, AND THE OPEC EURO QUESTION

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Updated March 13, 2003

[Note: at the address above this essay contains many hotlinks to relevant documents.]

As the United States made preparations for war with Iraq, White House Press Secretary Ari Fleischer, on 2/6/03, again denied to US journalists that the projected war had "anything to do with oil." <1> He echoed Defense Minister Donald Rumsfeld, who on 11/14/02 told CBS News that "It has nothing to do with oil, literally nothing to do with oil."

Speaking to British MPs, Prime Minister Tony Blair was just as explicit: "Let me deal with the conspiracy theory idea that this is somehow to do with oil. There is no way whatever if oil were the issue that it would not be infinitely simpler to cut a deal with Saddam...." (London Times 1/15/03)

Nor did Bush's State of the Union Message, or Colin Powell's address to the United Nations Security Council, once mention the word "oil." Instead the talk was (in the president's words) of "Iraq's illegal weapons programs, its attempts to hide those weapons from inspectors, and its links to terrorist groups."

However our leaders are not being candid with us. Oil has been a major US concern about Iraq in internal and unpublicized documents, since the start of this Administration, and indeed earlier. As Michael Renner has written in Foreign Policy in Focus, February 14, 2003, "Washington's War on Iraq is the Lynchpin to Controlling Persian Gulf Oil."

But the need to dominate oil from Iraq is also deeply intertwined with the defense of the dollar. Its current strength is supported by OPEC's requirement (secured by a secret agreement between the US and Saudi Arabia) that all OPEC oil sales be denominated in dollars. This requirement is currently threatened by the desire of some OPEC countries to allow OPEC oil sales to be paid in euros.

The Internally Stated US Goal of Securing the Flow of Oil from the Middle East

As early as April 1997, a report from the James A. Baker Institute of Public Policy at Rice University addressed the problem of "energy security" for the United States, and noted that the US was increasingly threatened by oil shortages in the face of the inability of oil supplies to keep up with world demand. In particular the report addressed "The Threat of Iraq and Iran" to the free flow of oil out of the Middle East. It concluded that Saddam Hussein was still a threat to Middle Eastern security and still had the military capability to exercise force beyond Iraq's borders.

The Bush Administration returned to this theme as soon as it took office in 2001, by adopting, some say commissioning, a second report from the same Institute. (This Task Force Report was co-sponsored by the Council on Foreign Relations in New York, another group historically concerned about US access to overseas oil resources.)

As reported by the Scotland Sunday Herald (10/6/02),

"President Bush's Cabinet agreed in April 2001 that `Iraq remains a destabilising influence to the flow of oil to international markets from the Middle East' and because this is an unacceptable risk to the US `military intervention' is necessary.

"Vice-president Dick Cheney, who chairs the White House Energy Policy Development Group, commissioned a report on `energy security' from the Baker Institute for Public Policy, a think-tank set up by James Baker, the former US secretary of state under George Bush Snr.

"The report, Strategic Energy Policy Challenges For The 21st Century, concludes: `The United States remains a prisoner of its energy dilemma. Iraq remains a de-stabilising influence to ... the flow of oil to international markets from the Middle East. Saddam Hussein has also demonstrated a willingness to threaten to use the oil weapon and to use his own export programme to manipulate oil markets. Therefore the US should conduct an immediate policy review toward Iraq including military, energy, economic and political/ diplomatic assessments. `The United States should then develop an integrated strategy with key allies in Europe and Asia, and with key countries in the Middle East, to restate goals with respect to Iraqi policy and to restore a cohesive coalition of key allies.'

"Baker who delivered the recommendations to Cheney, the former chief executive of Texas oil firm Halliburton, was advised by Kenneth Lay, the disgraced former chief executive of Enron, the US energy giant which went bankrupt after carrying out massive accountancy fraud."

[The Sunday Herald did not mention that the report begins with references to "recent energy price spikes" and "electricity outages in California," which we now know were engineered by Enron market manipulations for which two Enron energy traders have since pleaded guilty to conspiracy charges (Forbes, 2/5/03).]

The Unstated US Goals of Increasing the Flow of Oil from the Middle East, and US Dominance of the Area

Behind the acknowledged concern about the "free flow" of Persian Gulf oil are other motives. Following the recommendations of the Task Force Report, the Bush administration wishes to increase international (which may well turn out to mean US) investment in the under-developed Iraq oilfields. On 1/16/03 the Wall Street

Journal reported that officials from the White House, State Department, and Department of Defense have been meeting informally with executives from Halliburton, Schlumberger, ExxonMobil, ChevronTexaco and ConocoPhillips to plan the post-war expansion of oil production from Iraq (whose oilfields were largely held by US companies prior to their nationalization). The Journal story has since been denied by Administration officials; but, as the Guardian noted on 1/27/03, "It stretches credulity somewhat to imagine that the subject has never been broached." <2>

It is worth pointing out that Saddam Hussein already has offered exploratory concessions (which remained inactive because of the UN sanctions) to France, China, Russia, Brazil, Italy, and Malaysia. If Saddam is replaced by a new client regime, it seems likely that these concessions will be superseded, although there are reports that the US has offered France, Russia and China a share of post-war Iraqi oil, as an inducement to get their support in the Security Council. <3> Last September former CIA Chief Woolsey threatened in the Washington Post (9/15/02) that the price for participation by France and Russia in the post-war Iraq oil bonanza should be their support for "regime change." <4> It would not take much of such menacing talk from official sources to turn the Bush campaign against Iraq into a campaign against Europe (see Postscript).

Iraq's proven oil reserves are 113 billion barrels, the second largest in the world after Saudi Arabia, and eleven percent of the world's total. The total reserves could be 200 million barrels or more, all of it relatively easy and cheap to extract. Thus increasing Iraqi oil production will diminish the market pressure on oil-importing countries like the US. It will also weaken the power of OPEC to influence oil markets by decisions to restrict output. Indeed, were Iraqi oil production to expand to near its capacity, the quotas established by OPEC would cease to be honored in today's market. <5>

But the US is not just interested in oil from Iraq, it is concerned to maintain political dominance over all the oil-producing countries of the region. Secretary of State Colin Powell gave a glimpse of US intentions when he told the Senate Foreign Relations Committee on February 6 that success in the Iraq war "could fundamentally reshape that region in a powerful, positive way that will enhance U.S. interests." In conceding that it will be necessary to station US troops in occupied Iraq for the foreseeable future, the US is serving notice to Iran and to Saudi Arabia (both of which were once secure bases for US troops but are so no longer) that the US will reassert its presence as the dominant military power in the region.

The Unstated US Goal of Preserving Dollar Hegemony Over the Global Oil Market

Dominance of Middle Eastern oil will mean in effect maintaining dollar hegemony over the world oil economy. Given its present strategies, the US is constrained to demand no less. As I explain in this extract from my book, Drugs, Oil, and War, the present value of the US dollar, unjustified on purely economic grounds, is maintained by political arrangements, one of the chief of which is to ensure that all OPEC oil purchases will continue to be denominated in US dollars. (This commitment of OPEC to dollar oil sales was secured in the 1970s by a secret agreement between the US and Saudi Arabia, before the two countries began to drift apart over Israel and other issues.)

The chief reason why dollars are more than pieces of green paper is that countries all over the world need them for purchases, principally of oil. This requires them in addition to maintain dollar reserves to protect their own currency; and these reserves, when invested, help maintain the current high levels of the US securities markets.

As Henry Liu has written vividly in the online Asian Times (4/11/02),

"World trade is now a game in which the US produces dollars and the rest of the world produces things that dollars can buy. The world's interlinked economies no longer trade to capture a comparative advantage; they compete in exports to capture needed dollars to service dollar-denominated foreign debts and to accumulate dollar reserves to sustain the exchange value of their domestic currencies. To prevent speculative and manipulative attacks on their currencies, the world's central banks must acquire and hold dollar reserves in corresponding amounts to their currencies in circulation. The higher the market pressure to devalue a particular currency, the more dollar reserves its central bank must hold. This creates a built-in support for a strong dollar that in turn forces the world's central banks to acquire and hold more dollar reserves, making it stronger. This phenomenon is known as dollar hegemony, which is created by the geopolitically constructed peculiarity that critical commodities, most notably oil, are denominated in dollars. Everyone accepts dollars because dollars can buy oil. The recycling of petro-dollars is the price the US has extracted from oil-producing countries for US tolerance of the oil-exporting cartel since 1973.

"By definition, dollar reserves must be invested in US assets, creating a capital-accounts surplus for the US economy. Even after a year of sharp correction, US stock valuation is still at a 25-year high and trading at a 56 percent premium compared with emerging markets."

But central bankers around the world do not expect either the US dollar or the US stock markets to sustain their current levels. As William Greider in The Nation (9/23/02) has pointed out:

"US economy's net foreign indebtedness--the accumulation of two decades of running larger and larger trade deficits--will reach nearly 25 percent of US GDP this year, or roughly $2.5 trillion. Fifteen years ago, it was zero. Before America's net balance of foreign assets turned negative, in 1988, the United States was a creditor nation itself, investing and lending vast capital to others, always more than it borrowed. Now the trend line looks most alarming. If the deficits persist around the current level of $400 billion a year or grow larger, the total US indebtedness should reach $3.5 trillion in three years or so. Within a decade, it would total 50 percent of GDP."

There is also a major potential threat to the overpriced dollar in Japan's unresolved deflationary crisis. As observers like Lawrence A. Joyce have commented, the dollar would take a major pummeling if the Japanese government (as seems quite possible) were suddenly required to fulfil its legal obligations to bail out failed Japanese banks (which could easily happen if a sustained scarcity of oil were to keep oil prices at $40 a barrel or higher):

"There is only one place where the Japanese government can get enough money to bail out its banking system: The Japanese government owns about 15% of our U.S. Treasury securities. And it would have to start selling them if it found itself facing a major banking crisis.

"That would send the already ailing dollar down even further. And the initiation of a sale of our Treasury securities by Japan, of course, would immediately trigger a worldwide stampede to do the same before the securities become worth only a fraction of what they were purchased for. At the same time, interest rates in the U.S. would immediately go through the roof."

Washington is of course aware of these problems, and believes that overwhelming military strength and the will to use it supply the answer, persuading or forcing other countries to support the dollar at its artificial level as the key to their own security. In an article entitled "Asia: the Military-Market Link," and published by the U.S. Naval Institute in January 2002, Professor Thomas Barnett of the US Naval War College, wrote: "We trade little pieces of paper (our currency, in the form of a trade deficit) for Asia's amazing array of products and services. We are smart enough to know this is a patently unfair deal unless we offer something of great value along with those little pieces of paper. That product is a strong US Pacific Fleet, which squares the transaction nicely."

There is some merit to this argument with respect to friendly countries like Japan, whose defense costs have been lowered by the US presence in Asia. But of course the Islamic countries of the world are less likely to appreciate the "great value" of a threatening US presence. Instead they are more likely to follow the example of Malaysian Prime Minister Mahathir Mohamad, and turn to the Islamic gold dinar as a way to diminish dollar hegemony in world markets and increase the power of Islamic nations to challenge US policies.

The United States has at present little reason to fear a challenge to the dollar from Malaysia. But Malaysia is an Islamic country; and the US has every reason to fear a similar challenge from the Islamic nations in OPEC, were they to force OPEC to cease OPEC oil sales in dollars, and denominate them instead in euros.

The Unstated US Goal of Preserving Dollar Hegemony Against Competition from the Euro

As noted in a recent article by W. Clark, "The Real But Unspoken Reasons for the Iraq War", the OPEC underpinning for the US dollar has shown signs of erosion in recent years. Iraq was one of the first OPEC countries, in 2000, to convert its reserves from dollars to euros. At the time a commentator for Radio Free Europe/Radio Liberty predicted that Saddam's political act "will cost Iraq millions in lost revenue." In fact Iraq has profited handsomely from the 17 percent gain in the value of the euro against the dollar in that time.

Other countries have gradually been climbing on to the euro bandwagon. An article in the Iran Financial News, 8/25/02, revealed that more than half of Iran's Forex Reserve Fund assets had been converted from dollars to euros. In 2002 China began diversifying its currency reserves away from dollars into euros. According to Business Week (2/17/03) Russia's Central Bank in the past year has doubled its euro holdings to 20 percent of its $48 billion foreign exchange reserves. And for a very good reason, according to its First Deputy Chairman Oleg Vyugin: "Returns on dollar instruments are very low now. Other currency instruments pay more."

Business Week continues:

`The story is the same across the globe. Money traders say that institutions as diverse as Bank of Canada, People's Bank of China, and Central Bank of Taiwan are giving more weight to the European currency. By the end of this year, they predict, the euro could account for 20% of global foreign currency reserves, which today amount to a cool $2.4 trillion. Little more than a year ago, the euro made up just 10%. "No one is saying that the euro's going to replace the dollar as the premier reserve currency," says Michael Klawitter, a currency strategist at WestLB Research in London. "But it will increase in importance for many central banks."...

`The shift to the euro has big implications for the foreign exchange markets and the U.S. and European economies. Currency specialists say the yawning U.S. current account deficit, now at 5%, is bound to drive the dollar down further, and the euro still higher, over the next two to four years. Although the greenback may stage a short-term recovery once the looming war with Iraq is over, predictions are that it will then continue its downward trend, and that central banks will play their part in the descent. "Even if central banks increase their euro holdings by just a few percent, it will have a major impact in the markets," says Klawitter. "We're talking many billions of dollars."'

If not deterred, OPEC could follow suit. Libya has been urging for some time that oil be priced in euros rather than dollars. Javad Yarjani, an Iranian senior OPEC official, told a European Union seminar in April 2002 that, despite the problems raised by such a conversion, "I believe that OPEC will not discount entirely the possibility of adopting euro pricing and payments in the future."

Meanwhile Hugo Chavez has been taking Venezuelan oil out of the petrodollar economy by bartering oil directly for commodities from thirteen other third world countries. Although this has not yet qualified Venezuela for official membership in Bush's "axis of evil," the heavy hand of the Bush Administration in the recent coup attempt against Chavez was only too obvious. (See "Venezuela Coup Linked to Bush Team," London Observer, 4/21/02, for details about the roles of US officials Elliot Abrams, Otto Reich, and John Negroponte.) <5>

Conclusion: How Should the US Be Addressing These Real Problems?

To conclude, the Bush administration is not threatening Iraq out of pique or whim. The recent policies of both parties have indeed made the US vulnerable to foreign oil and petrodollar pressures. But hopefully decent Americans will protest the notion that it is appropriate to rain missiles and bombs upon civilians of another country, who have had little or nothing to do with this crisis of America's own making.

Some in addition will continue to explore avenues whereby America's oil and financial vulnerabilities can be diminished without continuing down the road to Armageddon. These problems are serious, but economists have put forward proposals for diminishing them peacefully and multilaterally. With respect to oil, Ralph Nader has just written, "The demand is simple: Stop this war before it starts and immediately establish a sane national energy security strategy." In fact one key ingredient of such a strategy, restriction of demand, can be found in saner parts of the Baker Institute reports that the Bush administration has so far chosen to ignore.

But an energy strategy for the United States must be addressed in the larger context of an economic and financial restructuring of global institutions and currency flows. With respect to the more esoteric financial problems of the dollar, the economist and futurist Hazel Henderson has written that "My recommendations for reforming current international institutions, revitalizing the UN and expanding civic society are summarized in Beyond Globalization (1999). A more balanced world order must center on reforming global finance, taxing currency exchange and reducing the dollar's unsustainable role as the world's de facto reserve currency (which is destructive for all countries -- even the US itself). I favor a global reserve currency regime based on the parity of the US dollar and the euro. The fundamentals in the USA and the EU suggest that the G-8 has an opportunity to peg the dollar and the euro into a trading band. This, together with the new issue of SDR's [Special Drawing Rights]. proposed by all the IMF country members, promoted by George Soros and opposed only by the USA, would lend to more stable currency markets."

Without endorsing these specific proposals, I wish to second two rather obvious principles:

1) The problems of global financial instability must be addressed. As George Soros, famed as the man who broke the British pound in 1992, wrote later in the Financial Times,� "To argue that financial markets in general, and international lending in particular, need to be regulated is likely to outrage the financial community. Yet the evidence for just that is overwhelming."

2) A multilateral approach to these core problems is the only way to proceed. The US is strong enough to dominate the world militarily. Economically it is in decline, less and less competitive, and increasingly in debt. The Bush peoples' intention appears to be to override economic realities with military ones, as if there were no risk of economic retribution. They should be mindful of Britain's humiliating retreat from Suez in 1956, a retreat forced on it by the United States as a condition for propping up the failing British pound.

America's influence in the world has up to now been based largely on good will generated by its willingness to resolve matters multilaterally. This legacy of good will is being squandered recklessly, as US officials insult European leaders and steer NATO towards irreconcilable disagreement.

The assumption seems to be that America does not need Europe and can afford to break up an entente that has endured since World War II. The risks of such arrogance are explored in a separate Postscript.

FOOTNOTES

<1> Ari Fleischer Press Briefing of February 6, 2003:

Q Since you speak for the President, we have no access to him, can you categorically deny that the United States will take over the oil fields when we win this war? Which is apparently obvious and you're on your way and I don't think you doubt your victory. Oil -- is it about oil?

MR. FLEISCHER: Helen, as I've told you many times, if this had anything to do with oil, the position of the United States would be to lift the sanctions so the oil could flow. This is not about that. This is about saving lives by protecting the American people....

Q There are reports that we've divided up the oil already, divvied it up with the Russians and French and so forth. Isn't that true?....

MR. FLEISCHER: No, there's no truth to that, that we would divide up the oil fields.

(Concerning Mr. Fleischer's second answer, see the next two footnotes -- PDS.)

For an exhaustive rebuttal of a similar statement by Ari Fleischer on 10/30/02, see Larry Chin, "The Deep Politics of Regime Removal in Iraq", onlinejournal.com.

<2> An extremely interesting news item last October in Alexander's oilandgas.com revealed that the US was planning not only for the post-war exploitation of Iraq's oil reserves, but for Iraq's relationship to OPEC as well:

"30-10-02 The US State Department has pushed back its planned meeting with Iraqi opposition leaders on exploiting Iraq's oil and gas reserves after a US military offensive removes Saddam Hussein from power to early December. According to a source at the State Department, all the desired participants are not yet available.

"The Bush administration wants to have a working group of 12 to 20 people focused on Iraqi oil and gas to be able to recommend to an interim government ways of restoring the petroleum sector following a military attack in order to increase oil exports to partially pay for a possible US military occupation government -- further fuelling the view that controlling Iraqi oil is at the heart of the Bush campaign to replace Hussein with a more compliant regime. (Emphasis added -- PDS)....

"According to the source, the working group will not only prepare recommendations for the rehabilitation of the Iraqi petroleum sector post-Hussein, but will address questions regarding the country's continued membership in OPEC and whether it should be allowed to produce as much as possible or be limited by an OPEC quota, and it will consider whether to honour contracts made between the Hussein government and foreign oil companies, including the $ 3.5 b[illio]n project to be carried out by Russian interests to redevelop Iraq's oilfields, which, along with numerous other development projects, has been thwarted by United Nations sanctions.

<3> "Oil firms wait as Iraq crisis unfolds" by Robert Collier, San Francisco Chronicle,9/29/02:

`Iraqi opposition leaders suggest that unless France, Russia and China support the U.S. line in the Security Council, their oil companies may find themselves blacklisted.

`"We will examine all the contracts that Saddam Hussein has made, and we will cancel all those that are not in the interest of the Iraqi people and will reopen bidding on them," said Faisal Qaragholi, operations officer of the Iraqi National Congress, the opposition coalition based in London that plays a central role in the American anti-Hussein strategy.

`Ahmed Chalabi, the INC leader, has gone even further, proposing the creation of consortium of American companies to develop Iraq's oil fields.'

<4> As the Asia Times reported on 10/21/02,

`The war of positioning for a possible post-Saddam Iraqi environment is getting more ruthless by the minute. American oil conglomerates are openly courting representatives of the Iraqi National Congress (INC), the umbrella opposition. The darling of Exxon Mobil and Chevron Texaco is Ahmed Chalabi, US vice President Dick Cheney's pal and major contender for the title of Iraq's number one opposition figure. Chalabi, the INC leader, has already stressed on the record that he favors the creation of a "US-led consortium to develop Iraqi oil fields. American companies will have a big shot at Iraqi oil."

`To widespread doubts about how a pro-American post-Saddam government would respect contracts signed with non-American oil giants, the INC has reassured all players - mostly Russian and European - that the new post-Saddam administration will honor all its PSAs.

`The Future of Iraq Group, a State Department task force, officially is not talking about oil - which sounds like a joke. [Cf. footnote 2 -- PDS] And there's also no official confirmation that oil has been a key issue in the current hardcore Security Council negotiations between the US and Britain, on one side, and France, Russia and China on the other. But it is obviously not by historical accident that oil companies from these five permanent Security Council members are all positioning themselves for the post-Saddam environment.

`People like former CIA supremo James Woolsey are not even disguising Washington's plan to turn Iraq into an American protectorate with an Arab Hamid

Karzai al-la Afghanistan eager to open the oil taps for American oil giants. Woolsey had been openly saying that if France and Russia contributed to "regime change", their oil companies would be able to "work together" with the new regime and with American companies. Otherwise, they would be left contemplating passing cargoes in the Gulf.'

<5> Note that the true issue here is not just access to Iraq oil, but control over it. As Michael Parenti reminds us, in 1998, when the UN allowed Iraq to increase its exports into an already over-supplied oil market, this was perceived as a threat to US interests:

`The San Francisco Chronicle (22 February 1998) headlined its story "IRAQ'S OIL POSES THREAT TO THE WEST." In fact, Iraqi crude poses no threat to "the West" only to Western oil investors. If Iraq were able to reenter the international oil market, the Chronicle reported, "it would devalue British North Sea oil, undermine American oil production and---much more important---it would destroy the huge profits which the United States [read, US oil companies] stands to gain from its massive investment in Caucasian oil production, especially in Azerbaijan."'

<5> In August 2000 Chavez met with Saddam Hussein in Baghdad, the first dead of state to visit him since the 1991 Gulf War. Chavez told the press later that "We spoke at length on how to boost the role of OPEC." This was part of an extended Chavez tour to bolster OPEC unity against US-led pressure to lower oil prices, then at nearly $30 a barrel.

[Peter Dale Scott, a former Canadian diplomat and English Professor at the University of California, Berkeley, is a poet, writer, and researcher. He was born in Montreal in 1929, the only son of the poet F.R. Scott and the painter Marian Scott. His prose books include The War Conspiracy (1972), The Assassinations: Dallas and Beyond (in collaboration, 1976), Crime and Cover-Up: The CIA, the Mafia, and the Dallas-Watergate Connection (1977), The Iran-Contra Connection (in collaboration, 1987), Cocaine Politics: Drugs, Armies, and the CIA in Central America (in collaboration, 1991, 1998), Deep Politics and the Death of JFK (1993, 1996), Deep Politics Two (1995), and Drugs, Oil, and War (2003).]

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3. IT'S NOT ABOUT OIL OR IRAQ: IT'S ABOUT THE U.S. AND EUROPE GOING HEAD-TO-HEAD ON WORLD ECONOMIC DOMINANCE

Geoffrey Heard (Australia)
March 2003

Summary: Why is George Bush so hell bent on war with Iraq? Why does his administration reject every positive Iraqi move? It all makes sense when you consider the economic implications for the USA of not going to war with Iraq. The war in Iraq is actually the US and Europe going head to head on economic leadership of the world.

America's Bush administration has been caught in outright lies, gross exaggerations and incredible inaccuracies as it trotted out its litany of paper thin excuses for making war on Iraq. Along with its two supporters, Britain and Australia, it has shifted its ground and reversed its position with a barefaced contempt for its audience. It has manipulated information, deceived by commission and omission and frantically "bought" UN votes with billion dollar bribes.

Faced with the failure of gaining UN Security Council support for invading Iraq, the USA has threatened to invade without authorisation. It would act in breach of the UN's very constitution to allegedly enforced UN resolutions.

It is plain bizarre. Where does this desperation for war come from?

There are many things driving President Bush and his administration to invade Iraq, unseat Saddam Hussein and take over the country. But the biggest one is hidden and very, very simple. It is about the currency used to trade oil and consequently, who will dominate the world economically, in the foreseeable future -- the USA or the European Union.

Iraq is a European Union beachhead in that confrontation. America had a monopoly on the oil trade, with the US dollar being the fiat currency, but Iraq broke ranks in 1999, started to trade oil in the EU's euros, and profited. If America invades Iraq and takes over, it will hurl the EU and its euro back into the sea and make America's position as the dominant economic power in the world all but impregnable.

It is the biggest grab for world power in modern times.

America's allies in the invasion, Britain and Australia, are betting America will win and that they will get some trickle-down benefits for jumping on to the US bandwagon.

France and Germany are the spearhead of the European force -- Russia would like to go European but possibly can still be bought off.

Presumably, China would like to see the Europeans build a share of international trade currency ownership at this point while it continues to grow its international trading presence to the point where it, too, can share the leadership rewards.

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DEBATE BUILDING ON THE INTERNET

Oddly, little or nothing is appearing in the general media about this issue, although key people are becoming aware of it -- note the recent slide in the value of the US dollar. Are traders afraid of war? They are more likely to be afraid there will not be war.

But despite the silence in the general media, a major world discussion is developing around this issue, particularly on the internet. Among the many articles: Henry Liu, in the 'Asia Times' last June, it has been a hot topic on the Feasta forum, an Irish-based group exploring sustainable economics, and W. Clark's "The Real Reasons for the Upcoming War with Iraq: A Macroeconomic and Geostrategic Analysis of the Unspoken Truth" has been published by the 'Sierra Times', 'Indymedia.org', and 'ratical.org'.

This debate is not about whether America would suffer from losing the US dollar monopoly on oil trading -- that is a given -- rather it is about exactly how hard the USA would be hit. The smart money seems to be saying the impact would be in the range from severe to catastrophic. The USA could collapse economically.

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OIL DOLLARS

The key to it all is the fiat currency for trading oil.

Under an OPEC agreement, all oil has been traded in US dollars since 1971 (after the dropping of the gold standard) which makes the US dollar the de facto major international trading currency. If other nations have to hoard dollars to buy oil, then they want to use that hoard for other trading too. This fact gives America a huge trading advantage and helps make it the dominant economy in the world.

As an economic bloc, the European Union is the only challenger to the USA's economic position, and it created the euro to challenge the dollar in international markets. However, the EU is not yet united behind the euro -- there is a lot of jingoistic national politics involved, not least in Britain -- and in any case, so long as nations throughout the world must hoard dollars to buy oil, the euro can make only very limited inroads into the dollar's dominance.

In 1999, Iraq, with the world's second largest oil reserves, switched to trading its oil in euros. American analysts fell about laughing; Iraq had just made a mistake that was going to beggar the nation. But two years on, alarm bells were sounding; the euro was rising against the dollar, Iraq had given itself a huge economic free kick by switching.

Iran started thinking about switching too; Venezuela, the 4th largest oil producer, began looking at it and has been cutting out the dollar by bartering oil with several nations including America's bete noir, Cuba. Russia is seeking to ramp up oil production with Europe (trading in euros) an obvious market.

The greenback's grip on oil trading and consequently on world trade in general, was under serious threat. If America did not stamp on this immediately, this economic brushfire could rapidly be fanned into a wildfire capable of consuming the US's economy and its dominance of world trade.

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HOW DOES THE US GET ITS DOLLAR ADVANTAGE?

Imagine this: you are deep in debt but every day you write cheques for millions of dollars you don't have -- another luxury car, a holiday home at the beach, the world trip of a lifetime.

Your cheques should be worthless but they keep buying stuff because those cheques you write never reach the bank! You have an agreement with the owners of one thing everyone wants, call it petrol/gas, that they will accept only your cheques as payment. This means everyone must hoard your cheques so they can buy petrol/gas. Since they have to keep a stock of your cheques, they use them to buy other stuff too. You write a cheque to buy a TV, the TV shop owner swaps your cheque for petrol/gas, that seller buys some vegetables at the fruit shop, the fruiterer passes it on to buy bread, the baker buys some flour with it, and on it goes, round and round -- but never back to the bank.

You have a debt on your books, but so long as your cheque never reaches the bank, you don't have to pay. In effect, you have received your TV free.

This is the position the USA has enjoyed for 30 years -- it has been getting a free world trade ride for all that time. It has been receiving a huge subsidy from everyone else in the world. As it debt has been growing, it has printed more money (written more cheques) to keep trading. No wonder it is an economic powerhouse!

Then one day, one petrol seller says he is going to accept another person's cheques, a couple of others think that might be a good idea. If this spreads, people are going to stop hoarding your cheques and they will come flying home to the bank. Since you don't have enough in the bank to cover all the cheques, very nasty stuff is going to hit the fan!

But you are big, tough and very aggressive. You don't scare the other guy who can write cheques, he's pretty big too, but given a 'legitimate' excuse, you can beat the tripes out of the lone gas seller and scare him and his mates into submission.

And that, in a nutshell, is what the USA is doing right now with Iraq.

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AMERICA'S PRECARIOUS ECONOMIC POSITION

America is so eager to attack Iraq now because of the speed with which the euro fire could spread. If Iran, Venezuela and Russia join Iraq and sell large quantities of oil for euros, the euro would have the leverage it needs to become a powerful force in general international trade. Other nations would have to start swapping some of their dollars for euros.

The dollars the USA has printed, the 'cheques' it has written, would start to fly home, stripping away the illusion of value behind them. The USA's real economic condition is about as bad as it could be; it is the most debt-ridden nation on earth, owing about US$12,000 for every single one of it's 280 million men, women and children. It is worse than the position of Indonesia when it imploded economically a few years ago, or more recently, that of Argentina.

Even if OPEC did not switch to euros wholesale (and that would make a very nice non-oil profit for the OPEC countries, including minimising the various contrived debts America has forced on some of them), the US's difficulties would build. Even if only a small part of the oil trade went euro, that would do two things immediately:

* Increase the attractiveness to EU members of joining the 'eurozone', which in turn would make the euro stronger and make it more attractive to oil nations as a trading currency and to other nations as a general trading currency.

* Start the US dollars flying home demanding value when there isn't enough in the bank to cover them.

* The markets would over-react as usual and in no time, the US dollar's value would be spiralling down.

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THE US SOLUTION

America's response to the euro threat was predictable. It has come out fighting.

It aims to achieve four primary things by going to war with Iraq:

* Safeguard the American economy by returning Iraq to trading oil in US dollars, so the greenback is once again the exclusive oil currency.

* Send a very clear message to any other oil producers just what will happen to them if they do not stay in the dollar circle. Iran has already received one message -- remember how puzzled you were that in the midst of moderation and secularization, Iran was named as a member of the axis of evil?

* Place the second largest reserves of oil in the world under direct American control.

* Provide a secular, subject state where the US can maintain a huge force

(perhaps with nominal elements from allies such as Britain and Australia) to dominate the Middle East and its vital oil. This would enable the US to avoid using what it sees as the unreliable Turkey, the politically impossible Israel and surely the next state in its sights, Saudi Arabia, the birthplace of al Qaeda and a hotbed of anti-American sentiment.

* Severe setback the European Union and its euro, the only trading bloc and currency strong enough to attack the USA's dominance of world trade through the dollar.

* Provide cover for the US to run a covert operation to overturn the democratically elected government of Venezuela and replace it with an America-friendly military supported junta -- and put Venezuala's oil into American hands. Locking the world back into dollar oil trading would consolidate America's current position and make it all but impregnable as the dominant world power -- economically and militarily. A splintered Europe (the US is working hard to split Europe; Britain was easy, but other Europeans have offered support in terms of UN votes) and its euro would suffer a serious setback and might take decades to recover. It is the boldest grab for absolute power the world has seen in modern times. America is hardly likely to allow the possible slaughter of a few hundred thousand Iraqis stand between it and world domination.

President Bush did promise to protect the American way of life. This is what he meant.

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JUSTIFYING WAR

Obviously, the US could not simply invade Iraq, so it began casting around for a 'legitimate' reason to attack. That search has been one of increasing desperation as each rationalization has crumbled. First Iraq was a threat because of alleged links to al Qaeda; then it was proposed Iraq might supply al Qaeda with weapons; then Iraq's military threat to its neighbours was raised; then the need to deliver Iraqis from Saddam Hussein's horrendously inhumane rule; finally there is the question of compliance with UN weapons inspection.

The USA's justifications for invading Iraq are looking less impressive by the day. The US's statements that it would invade Iraq unilaterally without UN support and in defiance of the UN make a total nonsense of any American claim that it is concerned about the world body's strength and standing.

The UN weapons inspectors have come up with minimal infringements of the UN weapons limitations -- the final one being low tech rockets which exceed the range allowed by about 20 percent. But there is no sign of the so-called weapons of mass destruction (WMD) the US has so confidently asserted are to be found. Colin Powell named a certain north Iraqi village as a threat. It was not. He later admitted it was the wrong village.

'Newsweek' (24/2) has reported that while Bush officials have been trumpeting the fact that key Iraqi defector, Lt. Gen. Hussein Kamel, told the US in 1995 that Iraq had manufactured tonnes of nerve gas and anthrax (Colin Powell's 5 February presentation to the UN was just one example) they neglected to mention that Kamel had also told the US that these weapons had been destroyed.

Parts of the US and particularly the British secret 'evidence' have been shown to come from a student's masters thesis.

America's expressed concern about the Iraqi people's human rights and the country's lack of democracy are simply not supported by the USA's history of intervention in other states nor by its current actions. Think Guatemala, the Congo, Chile and Nicaragua as examples of a much larger pool of US actions to tear down legitimate, democratically elected governments and replace them with war, disruption, starvation, poverty, corruption, dictatorships, torture, rape and murder for its own economic ends. The most recent, Afghanistan, is not looking good; in fact that reinstalled a murderous group of warlords which America had earlier installed, then deposed, in favour of the now hated Taliban.

Saddam Hussein was just as repressive, corrupt and murderous 15 years ago when he used chemical weapons, supplied by the US, against the Kurds. The current US Secretary for Defence, Donald Rumsfeld, so vehement against Iraq now, was on hand personally to turn aside condemnation of Iraq and blame Iran. At that time, of course, the US thought Saddam Hussein was their man -- they were using him against the perceived threat of Iran's Islamic fundamentalism.

Right now, as 'The Independent' writer, Robert Fisk, has noted, the US's efforts to buy Algeria's UN vote includes promises of re-arming the military which has a decade long history of repression, torture, rape and murder Saddam Hussein himself would envy. It is estimated 200,000 people have died, and countless others been left maimed by the activities of these monsters. What price the US's humanitarian concerns for Iraqis? (Of course, the French are also wooing Algeria, their former north African territory, for all they are worth, but at least they are not pretending to be driven by humanitarian concerns.)

Indonesia is another nation with a vote and influence as the largest Muslim nation in the world. Its repressive, murderous military is regaining strength on the back of the US's so-called anti-terror campaign and is receiving promises of open and covert support -- including intelligence sharing.

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AND VENEZUELA

While the world's attention is focused on Iraq, America is both openly and covertly supporting the "coup of the rich" in Venezuela, which grabbed power briefly in April last year before being intimidated by massive public displays of support by the poor for democratically-elected President Chavez Frias. The coup leaders continue to use their control of the private media, much of industry and the ear of the American Government and its oily intimates to cause disruption and disturbance.

Venezuela's state-owned oil resources would make rich pickings for American oil companies and provide the US with an important oil source in its own backyard. Many writers have noted the contradiction between America's alleged desire to establish democracy in Iraq while at the same time, actively undermining the democratically-elected government in Venezuela. Above the line, America rushed to recognise the coup last April; more recently, President Bush has called for "early elections", ignoring the fact that President Chavez Frias has won three elections and two referendums and, in any case, early elections would be unconstitutional.

One element of the USA's covert action against Venezuela is the behaviour of American transnational businesses, which have locked out employees in support of "national strike" action. Imagine them doing that in the USA! There is no question that a covert operation is in process to overturn the legitimate Venezuelan government. Uruguayan congressman, Jose Nayardi, made it public when he revealed that the Bush administration had asked for Uruguay's support for

Venezuelan white collar executives and trade union activists "to break down levels of intransigence within the Chavez Frias administration". The process, he noted, was a shocking reminder of the CIA's 1973 intervention in Chile which saw General Pinochet lead his military coup to take over President Allende's democratically elected government in a bloodbath.

President Chavez Frias is desperately clinging to government, but with the might of the USA aligned with his opponents, how long can he last?

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THE COST OF WAR

Some have claimed that an American invasion of Iraq would cost so many billions of dollars that oil returns would never justify such an action.

But when the invasion is placed in the context of the protection of the entire US economy for now and into the future, the balance of the argument changes.

Further, there are three other vital factors:

First, America will be asking others to help pay for the war because it is protecting their interests. Japan and Saudi Arabia made serious contributions to the cost of the 1991 Gulf war.

Second -- in reality, war will cost the USA very little -- or at least, very little over and above normal expenditure. This war is already paid for! All the munitions and equipment have been bought and paid for. The USA would have to spend hardly a cent on new hardware to prosecute this war -- the expenditure will come later when munitions and equipment have to be replaced after the war. But amunitions, hardware and so on are being replaced all the time -- contracts are out. Some contracts will simply be brought forward and some others will be ramped up a bit, but spread over a few years, the cost will not be great. And what is the real extra cost of an army at war compared with maintaining the standing army around the world, running exercises and so on? It is there, but it is a relatively small sum.

Third -- lots of the extra costs involved in the war are dollars spent outside America, not least in the purchase of fuel. Guess how America will pay for these? By printing dollars it is going to war to protect. The same happens when production begins to replace hardware components, minerals, etc. are bought in with dollars that go overseas and exploit America's trading advantage.

The cost of war is not nearly as big as it is made out to be. The cost of not going to war would be horrendous for the USA -- unless there were another way of protecting the greenback's world trade dominance.

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AMERICA'S TWO ACTIVE ALLIES

Why are Australia and Britain supporting America in its transparent Iraqi war ploy?

Australia, of course, has significant US dollar reserves and trades widely in dollars and extensively with America. A fall in the US dollar would reduce Australia's debt, perhaps, but would do nothing for the Australian dollar's value against other currencies. John Howard, the Prime Minister, has long cherished the dream of a free trade agreement with the USA in the hope that Australia can jump on the back of the free ride America gets in trade through the dollar's position as the major trading medium. That would look much less attractive if the euro took over a significant part of the oil trade.

Britain has yet to adopt the euro. If the US takes over Iraq and blocks the euro's incursion into oil trading, Tony Blair will have given his French and German counterparts a bloody nose, and gained more room to manouevre on the issue -- perhaps years more room.

Britain would be in a position to demand a better deal from its EU partners for entering the "eurozone" if the new currency could not make the huge value gains guaranteed by a significant role in world oil trading. It might even be in a position to withdraw from Europe and link with America against continental Europe.

On the other hand, if the US cannot maintain the oil trade dollar monopoly, the euro will rapidly go from strength to strength, and Britain could be left begging to be allowed into the club.

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THE OPPOSITION

Some of the reasons for opposition to the American plan are obvious -- America is already the strongest nation on earth and dominates world trade through its dollar. If it had control of the Iraqi oil and a base for its forces in the Middle East, it would not add to, but would multiply its power.

The oil-producing nations, particularly the Arab ones, can see the writing on the wall and are quaking in their boots.

France and Germany are the EU leaders with the vision of a resurgent, united Europe taking its rightful place in the world and using its euro currency as a world trading reserve currency and thus gaining some of the free ride the United States enjoys now. They are the ones who initiated the euro oil trade with Iraq.

Russia is in deep economic trouble and knows it will get worse the day America starts exploiting its take-over of Afghanistan by running a pipeline southwards via Afghanistan from the giant southern Caspian oil fields. Currently, that oil is piped northwards -- where Russia has control.

Russia is in the process of ramping up oil production with the possibility of trading some of it for euros and selling some to the US itself. Russia already has enough problems with the fact that oil is traded in US dollars; if the US has control of Iraqi oil, it could distort the market to Russia's enormous disadvantage. In addition, Russia has interests in Iraqi oil; an American take over could see them lost. Already on its knees, Russia could be beggared before a mile of the Afghanistan pipeline is laid.

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ANOTHER SOLUTION?

The scenario clarifies the seriousness of America's position and explains its frantic drive for war. It also suggests that solutions other than war are possible.

Could America agree to share the trading goodies by allowing Europe to have a negotiated part of it? Not very likely, but it is just possible Europe can stare down the USA and force such an outcome. Time will tell. What about Europe taking the statesmanlike, humanitarian and long view, and withdrawing, leaving the oil to the US, with appropriate safeguards for ordinary Iraqis and democracy in Venezuela?

Europe might then be forced to adopt a smarter approach -- perhaps accelerating the development of alternative energy technologies which would reduce the EU's reliance on oil for energy and produce goods it could trade for euros -- shifting the world trade balance.

Now that would be a very positive outcome for everyone.

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4. The Real Reasons for the Upcoming War with Iraq: A Macroeconomic and Geostrategic Analysis of the Unspoken Truth

William Clark

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