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The Real Reasons Why Iran is the Next Target: The Emerging Euro-denominated International Oil Marker

by William Clark

The Iranians are about to commit an "offense" far greater than Saddam Hussein's conversion to the euro of Iraq's oil exports in the fall of 2000. Numerous articles have revealed Pentagon planning for operations against Iran as early as 2005. While the publicly stated reasons will be over Iran's nuclear ambitions, there are unspoken macroeconomic drivers explaining the Real Reasons regarding the 2nd stage of petrodollar warfare - Iran's upcoming euro-based oil Bourse.

In 2005-2006, The Tehran government has developed a plan to begin competing with New York's NYMEX and London's IPE with respect to international oil trades - using a euro-denominated international oil-trading mechanism. This means that without some form of US intervention, the euro is going to establish a firm foothold in the international oil trade. Given U.S. debt levels and the stated neoconservative project for U.S. global domination, Tehran's objective constitutes an obvious encroachment on U.S. dollar supremacy in the international oil market

"Of all the enemies to public liberty war is, perhaps, the most to be dreaded because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes...known instruments for bringing the many under the domination of the few. . . No nation could preserve its freedom in the midst of continual warfare."

- James Madison, *Political Observations*, 1795

Madison's words of wisdom should be carefully considered by the American people and world community. The rapidly deteriorating situation on the ground in Iraq portends an even direr situation for American soldiers and the People of the world community - should the Bush administration pursue their strategy regarding Iran. Current geopolitical tensions between the United States and Iran extend beyond the publicly stated concerns regarding Iran's nuclear intentions, and likely include a proposed Iranian "petroeuro system" for oil trade. Similar to the Iraq war, upcoming operations against Iran relate to the macroeconomics of the 'petrodollar recycling' and the unpublicized but real challenge to U.S. dollar supremacy from the euro as an alternative oil transaction currency.

It is now obvious the invasion of Iraq had less to do with any threat from Saddam's long-gone WMD program and certainly less to do with fighting International terrorism than it has to do with gaining control over Iraq's hydrocarbon reserves and in doing so maintaining the U.S. dollar as monopoly currency for the critical international oil market. Throughout 2004 statements by former administration insiders revealed that the Bush/Cheney administration entered into office with the intention of toppling Saddam Hussein. Indeed, the neoconservative strategy of installing a pro-U.S. government in Baghdad along with multiple U.S. military bases was partly designed to thwart further momentum within OPEC towards a "petroeuro." However, subsequent events show this strategy to be fundamentally flawed, with Iran moving forward towards a petroeuro system for international trades, while Russia discusses this option.

Candidly stated, 'Operation Iraqi Freedom' was a war designed to install a pro-U.S. puppet in Iraq, to establish multiple U.S. military bases before the onset of Peak Oil, and to reconvert Iraq back to petrodollars while hoping to thwart further OPEC momentum towards the euro as an alternative transaction currency. [1] In 2003 the global community witnessed a combination of petrodollar

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warfare and oil depletion warfare. The majority of the world's governments – especially the E.U. Russia and China - were not amused – and neither are the U.S. soldiers who are currently static in Iraq.

Indeed, the author's original pre-war hypothesis was validated shortly after the war in a *Financial Times* article dated June 5th, 2003, which confirmed Iraqi oil sales returning to the international markets were once again denominated in US dollars, not euros. Not surprisingly, this detail was never mentioned in the five US major media conglomerates who appear to censor this type of information, but confirmation of this vital fact provides insight into one of the crucial - yet overlooked - rationales for 2003 the Iraq war.

"The tender, for which bids are due by June 10, switches the transaction back to dollars -- the international currency of oil sales - despite the greenback's recent fall in value. Saddam Hussein in 2000 insisted Iraq's oil be sold for euros, a political move, but one that improved Iraq's recent earnings thanks to the rise in the value of the euro against the dollar." [2]

Unfortunately, it has become clear that yet another manufactured war, or some type of ill-advised covert operation is inevitable under President George W. Bush, should he win the 2004 Presidential Election. Numerous news reports over the past several months have revealed that the neoconservatives are quietly - but actively - planning for the second petrodollar war, this time against Iran.

"Deep in the Pentagon, admirals and generals are updating plans for possible U.S. military action in Syria and Iran. *The Defense Department unit responsible for military planning for the two troublesome countries is "busier than ever," an administration official says.* Some Bush advisers characterize the work as merely an effort to revise routine plans the Pentagon maintains for all contingencies in light of the Iraq war. More skittish bureaucrats say the updates are accompanied by a *revived campaign by administration conservatives and neocons for more hard-line U.S. policies toward the countries"..."Even hard-liners acknowledge that given the U.S. military commitment in Iraq, a U.S. attack on either country would be an unlikely last resort; covert action of some kind is the favored route for Washington hard-liners who want regime change in Damascus and Tehran.*"

"...administration hawks are pinning their hopes on regime change in Tehran - by covert means, preferably, but by force of arms if necessary. Papers on the idea have circulated inside the administration, mostly labeled "draft" or "working draft" to evade congressional subpoena powers and the Freedom of Information Act. Informed sources say the memos echo the administration's abortive Iraq strategy: oust the existing regime, swiftly install a pro-U.S. government in its place (extracting the new regime's promise to renounce any nuclear ambitions) and get out. *This daredevil scheme horrifies U.S. military leaders, and there's no evidence that it has won any backers at the cabinet level.*" [3]

To date, one of the more difficult technical obstacles concerning a euro-based oil transaction trading system is the lack of a euro-denominated oil pricing standard, or oil 'marker' as it is referred to in industry. The three current oil markers are U.S. dollar denominated, which include the West Texas Intermediate crude (WTI), Norway Brent crude, and the UAE Dubai crude. However, since the spring of 2003, Iran has required payments in the euro currency for its European and Asian/ACU exports - although the oil pricing for trades are still denominated in the dollar. [4]

Therefore, a potentially significant news development was reported in June 2004 announcing Iranian intentions to create of an Iranian oil Bourse. (The word "*bourse*" refers to a stock exchange for securities trading, and is derived from the French stock exchange in Paris, the Federation Internationale des Bourses de Valeurs.) This announcement portended competition would arise between the Iranian oil bourse and London's International Petroleum Exchange (IPE), as well as New York Mercantile Exchange (NYMEX). It should be noted that both the IPE and NYMEX are owned by U.S. corporations.

The macroeconomic implications of a successful Iranian Bourse are noteworthy. Considering that Iran has switched to the euro for its oil payments from E.U. and ACU customers, it would be logical

to assume the proposed Iranian Bourse will usher in a fourth crude oil marker – denominated in euro currency. Such a development would remove the main technical obstacle for a broad-based petroeuro system for international oil trades. From a purely economic and monetary perspective petroeuro system is a logical development given that the European Union imports more oil from OPEC producers than does the U.S., and the E.U. accounts for 45% of imports into the Middle East (2002 data).

Acknowledging that many of the oil contracts for Iran and Saudi Arabia are linked to the United Kingdom's Brent crude marker, the Iranian bourse could create a significant shift in the flow of international commerce into the Middle East. If Iran's bourse becomes a successful alternative for oil trades, it would challenge the hegemony currently enjoyed by the financial centers in both London (IPE) and New York (NYMEX), a factor not overlooked in the following article:

"Iran is to launch an oil trading market for Middle East and OPEC producers that could threaten the supremacy of London's International Petroleum Exchange."

"...He [Mr. Asemipour] played down the dangers that the new exchange could eventually pose for the IPE or Nymex, saying he hoped they might be able to cooperate in some way."

"...Some industry experts have warned the Iranians and other OPEC producers that western exchanges are controlled by big financial and oil corporations, which have a vested interest in market volatility."

The IPE, bought in 2001 by a consortium that includes BP, Goldman Sachs and Morgan Stanley, was unwilling to discuss the Iranian move yesterday. "We would not have any comment to make on it at this stage," said an IPE spokeswoman. "[5]

It is unclear at the time of writing, if this project will be successful, or could it prompt overt or covert U.S. interventions - thereby signaling the second phase of petrodollar warfare in the Middle East. News articles in June 2004 revealed the discredited neoconservative sycophant Ahmed Chalabi may have revealed his knowledge to Iran regarding U.S. military planning for operations against that nation.

"The reason for the US breakup with Ahmed Chalabi, the Shiite Iraqi politician, could be his leak of Pentagon plans to invade Iran before Christmas 2005, but the American government has not changed its objective, and the attack could happen earlier if president George W. Bush is re-elected, or later if John Kerry is sworn in."

"...Diplomats said Chalabi was alerted to the Pentagon plans and in the process of trying to learn more to tell the Iranians, he invited suspicions of US officials, who subsequently got the Iraqi police to raid the compound of his Iraqi National Congress on 20 May 2004, leading to a final break up of relations."

"While the US is uncertain how much of the attack plans were leaked to Iran, it could change some of the invasion tactics, but the broad parameters would be kept intact." [6]

Regardless of the potential U.S. response to an Iranian petroeuro system, the emergence of an exchange market in the Middle East is not entirely surprising given the domestic peaking and decline of oil exports in the U.S. and U.K, in comparison to the remaining oil reserves in Iran, Iraq and Saudi Arabia. According to Mohammad Javad Asemipour, an advisor to Iran's oil ministry and the individual responsible for this project, this new oil exchange is scheduled to begin oil trading March 2005.

"Asemipour said the platform should be trading crude, natural gas and petrochemicals by the start of the new Iranian year, which falls on March 21, 2005."

He said other members of the Organization of Petroleum Exporting

Countries - Iran is the producer group's second-largest producer behind Saudi Arabia - as well as oil producers from the Caspian region would eventually participate in the exchange." [7]

(Note: the most recent Iranian news report from October 5, 2004 stated: "Iran's oil bourse will start trading by early 2006" which suggests a delay from the original March 21, 2005 target date). [8] Additionally, according to the following report, Saudi investors may be interested in participating in the Iranian oil exchange market, further illustrating why petrodollar hegemony is becoming unsustainable.

"Chris Cook, who previously worked for the IPE and now offers consultancy services to markets through Partnerships Consulting LLP in London, commented: "Post-9/11, there has also been an interest in the project from the Saudis, who weren't interested in participating before."

"Others familiar with Iran's economy said since 9/11, Saudi Arabian investors are opting to invest in Iran rather than traditional western markets as the kingdom's relations with the U.S. have weakened. Iran's oil ministry has made no secret of its eagerness to attract much needed foreign investment in its energy sector and broaden its choice of oil buyers."

"...Along with several other members of OPEC, Iranian oil officials believe crude trading on the New York Mercantile Exchange and the IPE is controlled by the oil majors and big financial companies, who benefit from market volatility." [9]

One of the Federal Reserve's nightmares may begin to unfold in 2005 or 2006, when it appears international buyers will have a choice of buying a barrel of oil for \$50 dollars on the NYMEX or an IPE - or purchase a barrel of oil for €37 - €40 euros via the Iranian Bourse. This assumes the euro maintains its current 20-25% appreciated value relative to the dollar - and assumes that some sort of "intervention" is not undertaken against Iran. The upcoming bourse will introduce petrodollar versus petroeuro currency hedging, and fundamentally new dynamics to the biggest market in the world - global oil and gas trades.

During an important speech in April 2002, Mr. Javad Yarjani, an OPEC executive, described three pivotal events that would facilitate an OPEC transition to euros. [10] He stated this would be based on (1) if and when Norway's Brent crude is re-dominated in euros, (2) if and when the U.K. adopts the euro, and (3) whether or not the euro gains parity valuation relative to the dollar, and the EU proposed expansion plans were successful. (Note: Both of the later two criteria have transpired: euro's valuation has been above the dollar since late 2002, and the euro-based E.U. enlarged in May 2004 from 12 to 22 countries). In the meantime, the United Kingdom remains uncomfortably juxtaposed between the financial interests of the U.S. banking nexus (New York/Washington) and the E.U. financial centers (Paris/Frankfurt).

The implementation of the proposed Iranian oil Bourse (exchange) in 2005/2006 - if successful utilizing the euro as its oil transaction currency standard - essentially negates the necessity of the previous two criteria as described by Mr. Yarjani regarding the solidification of a "petroeuro" system for international oil trades. [10] It should also be noted that during 2003-2004 Russia and China have both increased their central bank holdings of the euro currency, which appears to be a coordinated move to facilitate the anticipated ascendancy of the euro as a second World Reserve currency. [11] [12] In the meantime, the United Kingdom is uncomfortably juxtaposed between the financial interests of the U.S. (New York/Washington) banking nexus and that of the E.U. financial center (Paris/Frankfurt).

The immediate question for Americans? Will the neoconservatives attempt to intervene covertly and/or overtly in Iran during 2005 in an effort to prevent the formation of a euro-denominated crude oil pricing mechanism? Commentators in India are quite correct in their assessment that a U.S. intervention in Iran is likely to prove disastrous for the United States, making matters much worse regarding international terrorism, not to mention the potential effects on the U.S. economy.

"The giving up on the terror war while Iran invasion plans are drawn up makes no sense, especially since the previous invasion and current occupation of Iraq has further fuelled Al-Qaeda terrorism after 9/11."

"...It is obvious that sucked into Iraq, the US has limited military manpower left to combat the Al-Qaeda elsewhere in the Middle East and South Central Asia,"..."and NATO is so seriously cross with America that it hesitates to provides troops in Iraq, and no other country is willing to bail out America outside its immediate allies like Britain, Italy, Australia and Japan."

"...If it [U.S.] intervenes again, it is absolutely certain it will not be able to improve the situation – Iraq shows America has not the depth or patience to create a new civil society – and will only make matters worse."

"There is a better way, as the constructive engagement of Libya's Colonel Muammar Gaddafi has shown...."Iran is obviously a more complex case than Libya, because power resides in the clergy, and Iran has not been entirely transparent about its nuclear programme, but the sensible way is to take it gently, and nudge it to moderation. Regime change will only worsen global Islamist terror, and in any case, Saudi Arabia is a fitter case for democratic intervention, if at all." [13]

It is abundantly clear that a 2nd Bush term will bring a confrontation and possible war with Iran during 2005. Colin Powell as the Secretary of the State, has moderated neoconservative military designs regarding Iran, but Powell has stated that he will be leaving at the end of Bush's first term. Of course if John Kerry wins in November, he might pursue a similar military strategy. However, in my opinion that Kerry is more likely to pursue multilateral negotiations regarding the Iranian issue.

Clearly, there are numerous risks regarding neoconservative strategy towards Iran. First, unlike Iraq, Iran has a robust military capability. Secondly, a repeat of any "Shock and Awe" tactics is not advisable given that Iran has installed sophisticated anti-ship missiles on the Island of Abu Musab and therefore controls the critical Strait of Hormuz. [14] In the case of a U.S. attack, a shut down of the Strait of Hormuz – where all of the Persian Gulf bound oil tankers must pass – could easily trigger a market panic with oil prices skyrocketing to \$100 per barrel or more. World oil production is now flat out, and a major interruption would escalate oil prices to a level that would set off a global Depression. Why are the neoconservatives willing to take such risks? Simply stated - their goal is U.S. global domination.

A successful Iranian bourse would solidify the petroeuro as an alternative oil transaction currency and thereby end the petrodollar's hegemonic status as the monopoly oil currency. Therefore, a graduated approach is needed to avoid precipitous U.S. economic dislocations. Multilateral compromise with the EU and OPEC regarding oil currency is certainly preferable to an 'Operatic Iranian Freedom,' or perhaps an attempted CIA-sponsored repeat of the 1953 Iranian coup – operation "Ajax" part II. [15] Indeed, there are very good reasons for U.S. military leaders to be "horrified" at the thought of a second Bush term in which Cheney and the neoconservatives would be unrestrained in their tragic pursuit of U.S. global domination.

"NEWSWEEK has learned that the CIA and DIA have war-gamed the likely consequences of a U.S. pre-emptive strike on Iran's nuclear facilities. No one liked the outcome. As an Air Force source tells it, "The war games were unsuccessful at preventing the conflict from escalating." [16]

Despite the impressive power of the U.S. military and the ability of our intelligence agencies to facilitate "interventions," it would be perilous and possibly ruinous for the U.S. to intervene in Iran given the dire situation in Iraq. The Monterey Institute of International Studies provided an external analysis of the possible consequences of a preemptive attack on Iran's nuclear facilities and was of the following:

"Considering the extensive financial and national policy investment Iran has committed to its nuclear projects, it is almost certain that an attack by Israel or the United States would result in immediate retaliation. A likely scenario includes an immediate Iranian missile counterattack on Israel and U.S. bases in the Gulf, followed by a very serious effort to destabilize Iraq and foment all-out confrontation between the United States and Iraq's Shi'i majority. Iran could also opt to destabilize Saudi Arabia and other Gulf states with a significant Shi'i population, and induce Lebanese Hizbullah to launch a series of rocket attacks on

Northern Israel."

"...An attack on Iranian nuclear facilities...could have various adverse effects on U.S. interests in the Middle East and the world. Most important, in the absence of evidence of an Iranian illegal nuclear program, an attack on Iran's nuclear facilities by the U.S. or Israel would be likely to strengthen Iran's international stature and reduce the threat of international sanctions against Iran. Such an event is more likely to embolden and expand Iran's nuclear aspirations and capabilities in the long term"...one thing is for certain, *it would not be just another Osirak.*" [17]

Synopsis

Regardless of whatever choice the U.S. electorate makes in the upcoming Presidential Election military expedition may still go ahead.

This essay was written out of my own patriotic duty in an effort to inform Americans of the challenges that lie ahead. On November 25, 2004, the issues involving Iran's nuclear program will be addressed by the International Atomic Energy Agency (IAEA), and possibly referred to the U Security Council if the results are unsatisfactory. Regardless of the IAEA findings, it appears increasingly likely the U.S. will use the specter of nuclear weapon proliferation as a pretext for an intervention, similar to the fears invoked in the previous WMD campaign regarding Iraq.

Pentagon sources confirm the Bush administration could undertake a desperate military strategy to thwart Iran's nuclear ambitions while simultaneously attempting to prevent the Iranian oil Bourse from initiating a euro-based system for oil trades. The latter would require forced "regime change and the U.S. occupation of Iran. Obviously this would require a military draft. Objectively speaking the post-war debacle in Iraq has clearly shown that such Imperial policies will be a catastrophic failure. Alternatively, perhaps a more enlightened U.S. administration could undertake multilateral negotiations with the EU and OPEC regarding a dual oil-currency system, in conjunction with global monetary reform. Either way, U.S. policy makers will soon face two difficult choices: monetary compromise or continued petrodollar warfare.

"I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts."

- Abraham Lincoln

"Whenever the people are well-informed, they can be trusted with their own government. Whenever things get so far wrong as to attract their notice, they may be relied on to set them to rights."

- Thomas Jefferson

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William Clark is the author of an award-winning essay published online in early 2003 entitled: 'The Real Reasons for the Upcoming War with Iraq: A Macroeconomic and Geostategic Analysis of the Unspoken Truth.'

<http://www.ratical.org/ratville/CAH/RRIraqWar.html> , also published by Global Research : <http://www.globalresearch.ca/articles/CLA302A.html> This essay received a 2003 'Project Censored' award, and was published in the book, *Censored 2004* [18] This pre-war essay hypothesized that Saddam sealed his fate when he announced in September 2000 that Iraq was no longer going to accept dollars for oil being sold under the UN's oil-for-food program and switch to the euro as Iraq's oil export transaction currency.

Note: Below is a description of this author's upcoming book: (Available spring 2005.)

***Petrodollar Warfare*
Oil, Iraq and the Future of the Dollar
William Clark**

The invasion of Iraq may well be remembered as the first oil currency war. Far from being a response to 9-11 terrorism or Iraq's alleged weapons of mass destruction, *Petrodollar Warfare* argues that the invasion was precipitated by two converging phenomena: the imminent peak in global oil production, and the ascendance of the euro currency.

Energy analysts agree that world oil supplies are about to peak, after which there will be a steady decline in supplies of oil. Iraq, possessing the world's second largest oil reserves

was therefore already a target of U.S. geostrategic interests. Together with the fact that it had switched its oil transaction currency to euros -- rather than U.S. dollars -- the Bush administration's unreported aim was to prevent further OPEC momentum in favor of the euro as an alternative oil transaction currency standard.

Meticulously researched, *Petrodollar Warfare* examines U.S. dollar hegemony and the unsustainable macroeconomics of 'petrodollar recycling,' pointing out that the issues underlying the Iraq war also apply to geopolitical tensions between the U.S. and other countries including the European Union (E.U.), Iran, Venezuela, and Russia. The author warns that without changing course, the American Experiment will end the way all empires end - with military over-extension and subsequent economic decline. He recommends the multilateral pursuit of both energy and monetary reforms within a United Nations framework to create a more balanced global energy and monetary system thereby reducing the possibility of future oil-depletion and oil currency-related warfare.

A sober call for an end to aggressive U.S. unilateralism, *Petrodollar Warfare* is a unique contribution to the debate about the future global political economy.

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