

# War for Oil

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## Abstract

*Although apparently suppressed in the US media, the answer to the Iraq enigma is simple: the oil: gaining geo-strategic control of Iraq along with its second largest proven oil reserves in the Middle East and the currency used to buy oil. Since American domestic production is slowing, it must increasingly rely on imports, including from Middle Eastern countries. So, to secure control of Iraq's oil before the onset Peak Oil was the purpose of American administration, in order to force Iraq to increase its production and decrease oil price. But is this good or bad for us?*

**Key words:** oil, petroeuro, petrodollar, Irak

## Introduction

As Mark Twain used to say, prophecies are always difficult to be made, that's why nobody can tell for sure whether Euro will ever substitute the American dollar, one thing is for sure: the battle has begun once Iran started to trade oil and oil derivatives in the European currency. Because, as it has always been said, the country that has the international currency is the one that „makes the rules of the game” and because of the tight relationship between the evolution of the oil price and the evolution of the macro economy, it is more than obvious that the „war” for supremacy is going to be long and not at all easy. And the first step of this “war” was made once US invaded Iraq, after the government started to sell oil for Euro and not for American dollar.

The Iraq War is a military campaign that began on March 20, 2003, with the invasion of Iraq by a multinational force led by troops from the United States and the United Kingdom. The last U.S. combat brigade left Iraq on August 19, 2010.

On August 31, U.S. president Barack Obama declared an end to combat operations. Speaking from the same desk where Bush launched the war, Obama cast the end of Operation Iraqi Freedom -- demonstrated by the departure of 95,000 U.S. combat troops to a remaining force below 50,000 -- as an opportunity for America to "turn the page," both on American involvement in Iraq and American priorities at home, where the economy is still struggling to regain its footing. "Operation Iraqi Freedom is over, and the Iraqi people now have lead responsibility for the security of their country," the president said in the Oval Office.

Before the war, millions of people in the U.S. and around the world were asking the simple question: "Why attack Iraq now?" Well, behind all the propaganda, one of the answers to the Iraq enigma is the unspoken but overarching macroeconomic threats to the U.S. dollar from the euro. One of the secrets of today's international order is that the rest of the globe could topple the United States from its hegemonic status whenever they choose to do so, with a concerted

abandonment of the dollar standard. This is America's preeminent, inescapable Achilles Heel for now and the foreseeable future.

### **Why War with Iraq? (Or how U.S.A. justified the war in Iraq)**

In the days immediately following 9/11, the Bush Administration national security team actively debated an invasion of Iraq, but opted instead to limit the initial military response to Afghanistan. In January 2002, President Bush began laying the public groundwork for an invasion of Iraq, calling Iraq a member of the Axis of Evil and saying that "The United States of America will not permit the world's most dangerous regimes to threaten us with the world's most destructive weapons." Over the next year, the Bush Administration began pushing for international support for an invasion of Iraq, a campaign that culminated in Secretary of State Colin Powell's February 5, 2003 presentation to the United Nations Security Council. After failing to gain U.N. support for an additional UN authorization, the U.S., together with the UK and small contingents from Australia, Poland, and Denmark, launched an invasion.

At that time, several reasons have been given by the Bush Administration. (1) Saddam is an evil man who used poison gas on his own people, has killed political rivals, and violates the human rights of his people, especially the Kurds. The Iraqi people deserve to be liberated from him. (2) Saddam has ignored and violated resolutions of the United Nations Security Council relative to inspections and disarmament and must be removed to protect the credibility and integrity of the United Nations. (3) Saddam has weapons of mass destruction (chemical and biological weapons) in violation of UN demands. These weapons pose a threat to Iraq's neighbors and to U.S. interests in the region. (4) Saddam has ties to Al Qaeda and therefore bears some responsibility for 9/11 and must be removed as part of the War on Terrorism. (5) Saddam's ties to Al Qaeda and his possession of chemical and biological agents which he could transfer to them pose a threat to the U.S. homeland and to the people. (6) Saddam has been trying to buy aluminum tubes useful in a uranium separation plant. Such a plant could produce the highly-enriched U-235 required for making an atomic bomb. If Saddam succeeded in building such a bomb, he could transfer it to Al Qaeda who could use it in the U.S. (7) UN weapons inspectors won't do any good. They failed to disarm Saddam before, and would fail again. Iraq only agrees to inspections as a stalling tactic.

### **Weapons of mass destruction**

On November 8, 2002, the U.N. Security Council passed Resolution 1441, giving Iraq "a final opportunity to comply with its disarmament obligations" including unrestricted inspections by the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) and the International Atomic Energy Agency (IAEA). Saddam Hussein accepted the resolution on November 13 and inspectors returned to Iraq under the direction of UNMOVIC chairman Hans Blix and IAEA Director General Mohamed ElBaradei. Between that time and the time of the invasion, the IAEA "found no evidence or plausible indication of the revival of a nuclear weapons programme in Iraq

Throughout the run-up to the invasion of Iraq, George Bush and Tony Blair were explicit that they were concerned about a "single question" from the chief UN weapons inspector: Has the Iraqi regime fully and unconditionally disarmed, as required by Resolution 1441, or has it not? George Bush, speaking in October 2002, said that "The stated policy of the United States is regime change... However, if [Hussein] were to meet all the conditions of the United Nations, the conditions that I have described very clearly in terms that everybody can understand, that in itself will signal the regime has changed." Similarly, in September 2002, Tony Blair stated, in an answer to a parliamentary question, that "Regime change in Iraq would be a wonderful thing.

That is not the purpose of our action; our purpose is to disarm Iraq of weapons of mass destruction..." In November of that year, Tony Blair further stated that "So far as our objective, it is disarmament, not regime change - that is our objective. Now I happen to believe the regime of Saddam is a very brutal and repressive regime, I think it does enormous damage to the Iraqi people... so I have got no doubt Saddam is very bad for Iraq, but on the other hand I have got no doubt either that the purpose of our challenge from the United Nations is disarmament of weapons of mass destruction, it is not regime change." At a press conference on January 31, 2003, George Bush stated: "Saddam Hussein must understand that if he does not disarm, for the sake of peace, we, along with others, will go disarm Saddam Hussein." As late as February 25, 2003, Tony Blair said to the House of Commons: "I detest his regime. But even now he can save it by complying with the UN's demand. Even now, we are prepared to go the extra step to achieve disarmament peacefully."

After the invasion, despite an exhaustive search led by the Iraq Survey Group involving a more than 1,400 member team, no evidence of Iraqi weapons programs was found. On the contrary, the investigation concluded that Iraq had destroyed all major stockpiles of WMDs and ceased production in 1991 when sanctions were imposed. The failure to find evidence of Iraqi weapons programs following the invasion led to considerable controversy in the United States and worldwide, including claims by critics of the war that the Bush and Blair Administrations deliberately manipulated and misused intelligence to push for an invasion.

### **Iraqi links to terrorist organizations**

Along with Iraq's alleged development of WMDs, another justification for invasion was the purported link between Saddam Hussein's government and terrorist organizations, in particular Al-Qaeda. In that sense, the Bush Administration cast the Iraq war as part of the broader War on Terrorism. As with the argument that Iraq was developing biological and nuclear weapons, evidence linking Hussein and Al-Qaeda was discredited by multiple U.S. intelligence agencies soon after the invasion of Iraq.

The eventual lack of evidence linking the Hussein government and Al Qaeda led many war critics to allege that the Bush Administration purposely fabricated such links to strengthen the case for the invasion. These claims were supported by the July 2005 release of the so-called Downing Street Memo, in which Richard Dearlove (then head of British foreign intelligence service MI6) wrote that "the intelligence and facts were being fixed [by the U.S.] around the policy" of removing Saddam Hussein from power.

### **Human rights**

The U.S. has cited the United Nations in condemnation of Hussein's human right abuses as one of several reasons for the Iraq invasion.

As evidence supporting U.S. and British claims about Iraqi WMDs weakened, the Bush Administration began to focus more upon the other issues that Congress had articulated within the Iraq Resolution such as human rights violations of the Hussein government as justification for military intervention. That the Hussein government consistently and violently violated the human right of its people is in little doubt. Hussein's brutal human rights record notwithstanding, war critics have severely questioned its use as rationale for military intervention.

Many critics have argued, despite its repeated mention in the Joint Resolution, that human rights was never a principal justification for the war, and that it became prominent only after evidence concerning WMDs and Hussein's links to terrorism became discredited. Others have questioned

why military intervention for humanitarian reasons was justified in Iraq but not in other countries where human rights violations were even greater, such as Liberia or Darfur.

Leading human rights groups such as Human Rights Watch and Amnesty International further argued that even had human rights concerns been a central rationale for the invasion, military intervention would not have been justifiable on humanitarian grounds.

## **The Real Reasons for the War in Iraq**

Since not a single one of Bush's excuses for going to war against Iraq is valid, the question remains, "Then why was he so set on this war?"

The main reasons for the US invasion of Iraq were to gain control of Iraq's oilfields (so as to keep the oil in the ground and drive up oil prices), to establish military bases in Iraq from which to dominate the Middle East and eventually (by controlling oil supply) to establish control over all countries dependent on oil, to remove the threat to Israel posed by Iraq.

### **First reason: gaining geo-strategic control of Irak**

The US-led war against Iraq did not begin in March 2003, as many Americans believe. In fact the US and Britain had been waging an undeclared war against Iraq for twelve years, ever since the end of the Gulf Slaughter in 1991 (John Pilger's - *The Secret War on Iraq*). The aim has been the destruction of Iraqi society enabling the US and Britain to gain control of Iraq's huge oil reserves. As a result of economic sanctions against Iraq, the prevention of the delivery of much-needed medical and other supplies because of US vetoes in the U.N. Security Council, and the carcinogenic effects of depleted uranium left over from the 1991 Gulf Slaughter, over a million people (two-thirds of them children) have died (this figure is over and above the death rate which would have been expected without sanctions).

An invasion of Iraq had been part of the geopolitical strategy of the United States for many years. It was just one element of a strategy designed to gain for the US domination of the world's economic resources. This plan was made public in the "National Security Strategy of the United States of America" which was published in September 2002. The message of this document, stripped of its cynical euphemisms and calculated evasions, is unmistakably clear: The United States government asserts the right to bomb, invade and destroy whatever country it chooses. It refuses to respect as a matter of international law the sovereignty of any other country, and reserves the right to get rid of any regime, in any part of the world, that is, appears to be, or might some day become, hostile to what the United States considers to be its vital interests.

President Bush intended to topple Saddam in 2003 in a pre-emptive attempt to initiate massive Iraqi oil production in far excess of OPEC quotas, to reduce global oil prices, and thereby dismantle OPEC's price controls. The end-goal of the neo-conservatives is incredibly bold yet simple in purpose, to use the 'war on terror' as the premise to finally dissolve OPEC's decision-making process, thus ultimately preventing the cartel's inevitable switch to pricing oil in euros. How would the Bush administration break-up the OPEC cartel's price controls in a post-Saddam Iraq? First, the newly installed U.S. ruler will convert Iraq's oil exports back to the dollar standard. Moreover, according to a Washington Post article just before the Iraq war, one of the pre-determined decisions of the "Iraqi interim authority" in a postwar economy is to drop the Iraq dinar, and covert Iraq to the U.S. dollar: "The exact role of the authority, when it would begin to take over government functions, and who would be part of it are still to be determined, according to other senior administration officials. But they did suggest that in running a postwar

Iraqi economy, the U.S. plans to substitute U.S. dollars for the Iraqi currency that bears a likeness of President Saddam Hussein."

Following the war, with the U.S. military protecting the oil fields, the new ruling junta will undertake the necessary steps to significantly increase production of Iraq oil - well beyond OPEC's 2 million barrel per day quota. Analysts have predicted that raising Iraq's oil production back to pre-1990 levels will take between several months or two years. Nonetheless, geo-strategists such as Henry Kissinger suggested in 1973 that the US should invade the Middle East, and disband the OPEC cartel. Mr. Robert Dreyfuss discussed the history of these goals in his article "*The Thirty Year Itch*." Dr. Nayyer Ali offers a succinct analysis of how Iraq's underutilized oil reserves will not be a 'profit-maker' for the U.S. government, but will fulfill the more important geo-strategic goal of providing the crucial economic instrument to leverage and dissolve OPEC's price controls, thus fulfilling the long sought-after goal of the neo-conservatives to disband the OPEC cartel: "Despite this vast pool of oil, Iraq has never produced at a level proportionate to the reserve base. Since the Gulf War, Iraq's production has been limited by sanctions and allowed sales under the oil for food program (by which Iraq has sold 60 billion dollars worth of oil over the last 5 years) and what else can be smuggled out. This amounts to less than 1 billion barrels per year. If Iraq were reintegrated into the world economy, it could allow massive investment in its oil sector and boost output to 2.5 billion barrels per year, or about 7 million barrels a day."

### **The second reason: the currency for oil transactions**

Of course, there were also other reasons. After control of the oilfields, the next most important reason for the US's takeover of Iraq was that Iraq had begun to accept payment in euros for its oil, opening the way for all major oil producers to do this. Were this to happen, then the euro would probably become the world's reserve currency, not the dollar. This would have a major negative impact on the US economy (would, in fact, cause the collapse of the US economy) and would also severely reduce its ability to pour money into its weapons programs. By gaining control of Iraq's oil, the US can refuse payment in euros, thereby maintaining the dollar as the reserve currency.

And war is always good for those companies which manufacture weapons (in collusion with governments). So, there is an extra bonus: the profits to be made from contracts to "reconstruct" Iraq. Even before the war began, the Bush administration had awarded contracts worth billions of dollars to large American companies.

The reality is that the "safe harbor" status of the U.S. dollar since 1945 rests on it being the international reserve currency. Thus it has assumed the role of sole currency for global oil transactions. The U.S. prints hundreds of billions of fiat dollars, which U.S. consumers provide to other nations via the purchase of imported goods. These dollars become "petro-dollars" when are then used by those nation states to purchase oil/energy from OPEC producers. Approximately \$600 to \$800 billion 'petrodollars' are annually from OPEC and invested back into the U.S. via Treasury Bills or other dollar-denominated assets such as U.S. stocks, bonds, real estate, etc. This recycling bolsters the dollar's international liquidity value.

In 1974, the Nixon administration negotiated assurances from Saudi Arabia to price oil in dollars only, and invest their surplus oil proceeds in U.S. Treasury Bills. In return, the U.S. would protect the Saudi regime. These agreements created the phenomenon known as "petrodollar recycling." In effect, global oil consumption via OPEC provides a healthy subsidy to the U.S. economy. Hence, the Europeans created the euro to compete with the dollar as an alternative international reserve currency. Obviously the E.U. would also like oil priced in euros as well, as this would reduce or eliminate their currency risk for oil purchases.

The 'old rules' for valuation of the U.S. dollar currency and economic power were based on the American flexible market, free flow of trade goods, high per worker productivity, manufacturing output/ trade surpluses, government oversight of accounting methodologies, developed infrastructure, education system, and of course total cash flow and profitability. While many of these factors remain present, over the last two decades U.S. have diluted some of the 'safe harbor' economic fundamentals. Despite vast imbalances and structural problems that are escalating within the U.S. economy, since 1974 the dollar as the monopoly oil currency created 'new rules'.

However, the introduction of the euro is a significant new factor, and appears to be the primary threat to U.S. economic hegemony.

Especially interesting is a speech given by Mr Javad Yarjani, the Head of OPEC's Petroleum Market Analysis Department, in a visit to Spain in April 2002. His speech dealt entirely with the subject of OPEC oil transaction currency standard with respect to both the dollar and the euro. The following excerpts from this OPEC executive provide insights into the conditions that would create momentum for an OPEC currency switch to the euro. Indeed, his candid analysis warrants careful consideration given that two of the requisite variables he outlines for the switch have taken place since this speech in Spring 2002. Articles regarding the euro and its potential to purchase oil are discussed in the European and Asian media, but have been completely unreported in the U.S.

\* "...The question that comes to mind is whether the euro will establish itself in world financial markets, thus challenging the supremacy of the US dollar, and consequently trigger a change in the dollar's dominance in oil markets."

\* "...it is worthwhile to note that in the long run the euro is not at such a disadvantage versus the dollar when one compares the relative sizes of the economies involved. Moreover, the Euro-zone has a bigger share of global trade than the US and while the US has a huge current account deficit, the euro area has a more, or balanced, external accounts position. One of the more compelling arguments for keeping oil pricing and payments in dollars has been that the US remains a large importer of oil, despite being a substantial crude producer itself. However, looking at the statistics of crude oil exports, one notes that the Euro-zone is an even larger importer of oil and petroleum products than the US."

\* "It is quite possible that as the bilateral trade increases between the Middle East and the European Union, it could be feasible to price oil in euros considering Europe is the main economic partner of that region. This would foster further ties between these trading blocs by increasing commercial exchange, and by helping attract much-needed European investment to the Middle East.

\* "In the long-term, perhaps one question that comes to mind is could a dual system operate simultaneously? Could one pricing system apply to the Western Hemisphere in dollars and for the rest of the world in euros? This will remain the test for the euro, should the currency gain ground in the market of oil transactions."

Equally alarming, and completely unreported in the US media, are significant monetary shifts in the reserve funds of foreign governments away from the dollar with movements towards the euro. Despite the absence of media coverage, the plausibility of slowly abandoning the dollar standard for the euro is real.

Although a collective switch by OPEC would be extremely unlikely barring a major panic on the U.S. dollar, it would appear that a gradual transition is quite plausible. The effect of an OPEC switch to the euro would be that oil-consuming nations would have to flush dollars out of their (central bank) reserve funds and replace these 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 Argentina currency crisis, for example). You'd have foreign funds stream out of

the U.S. stock markets and dollar denominated assets, there'd surely 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.

### **So, what's next?**

Not all U.S. troops are expected to leave Iraq until the end of 2011, a final agreement that was secured by Bush during his last year in office. Although there are now no combat-tasked US forces in Iraq, 50,000 pairs of American boots remain there, as do more than a million pieces of equipment and 94 bases. The remaining troops are supposed to train Iraqi forces and to provide security for US civilians still there. What Obama didn't mention was that as the soldiers march out, private military contractors are moving in. This contracting out of military functions is a trend which was accelerated during the Bush/Cheney/Rumsfeld years, and the wars in Iraq and Afghanistan are the most privatised in American history (as the Department of Defence declared last month).

Moreover, on June 30 and December 11, 2009, the Iraqi ministry of oil awarded contracts to international oil companies for some of Iraq's many oil fields. The winning oil companies enter joint ventures with the Iraqi ministry of oil, and the terms of the awarded contracts include extraction of oil for a fixed fee of approximately \$1.40 per barrel. The fees will only be paid once a production threshold set by the Iraqi ministry of oil is reached. Oil fields contracted include the "super-giant" Majnoon Field, Halfaya Field, West Qurna Field and Rumaila Field. The East Baghdad Field, situated in part under Sadr City, did not receive any bids and the Iraqi oil ministry is considering working the field itself. Oil minister Hussein al-Shahristani told Iraqi public television that the increasing oil production "would finance infrastructure projects across Iraq – schools, roads, airports, housing, hospitals". Iraq's oil deposits hold known reserves of 43 billion barrels of crude, as well as large quantities of natural gas.

### **Conclusions**

One of the stated economic objectives, and perhaps the primary objective, when setting up the euro was to turn it into a reserve currency to challenge the dollar so that Europe too could get something for nothing. This however would be a disaster for the US. Not only would they lose a large part of their annual subsidy of effectively free goods and services, but countries switching to euro reserves from dollar reserves would bring down the value of the US currency. Imports would start to cost Americans a lot more and as increasing numbers of those holding dollars began to spend them, the US would have to start paying its debts by supplying in goods and services to foreign countries, thus reducing American living standards. As countries and businesses converted their dollar assets into euro assets, the US property and stock market bubbles would, without doubt, burst. The Federal Reserve would no longer be able to print more money to reflate the bubble, as it is currently openly considering doing, because, without lots of eager foreigners prepared to mop them up, a serious inflation would result which, in turn, would make foreigners even more reluctant to hold the US currency and thus heighten the crisis.

There is though one major obstacle to this happening: oil. Oil is not just by far the most important commodity traded internationally, it is the lifeblood of all modern industrialised economies. If you don't have oil, you have to buy it. And if you want to buy oil on the international markets, you usually have to have dollars. Until recently, all OPEC countries agreed to sell their oil for dollars only. So long as this remained the case, the euro was unlikely to become the major reserve currency: there is not a lot of point in stockpiling euros if every time you need to buy oil you have to change them into dollars. This arrangement also meant that

the US effectively part-controlled the entire world oil market: you could only buy oil if you had dollars, and only one country had the right to print dollars - the US.

Today, the euro has taken its place alongside the dollar, as the world's other global reserve currency. This new reality makes for a more stable world and takes the unsustainable burden of sole reserve currency off the US dollar.

The purely economic arguments for OPEC converting to the euro, at least for a while, seem very strong. The Euro-zone does not run a huge trade deficit nor is it heavily indebted to the rest of the world like the US and interest rates in the Euro-zone are also significantly higher. The Euro-zone has a larger share of world trade than the US and is the Middle East's main trading partner. And nearly everything you can buy for dollars you can also buy for euros - apart, of course, from oil. Furthermore, if OPEC were to convert their dollar assets to euro assets and then require payment for oil in Euros, their assets would immediately increase in value, since oil importing countries would be forced to also convert part of their assets, driving the prices up. For OPEC, backing the euro would be a self-fulfilling prophesy. They could then at some later date move to some other currency, perhaps back to the dollar, and again make huge profits. But of course it is not a purely economic decision.

Yarjani said the 'critical question is the overall value and stability of the euro, and whether other countries within the union adopt the single currency'. The first point is beginning to be answered. The second refers to Britain and Norway. If either joins the single currency, the key Brent benchmark could be redenominated in euros, offering an impetus to movers within OPEC.

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## Razboiul petrolului

### Rezumat

*Desi aparent ignorat de media Americana, raspunsul la enigma razboiului din Irak este simplu: petrolul: obtinerea controlului geo-strategic al Irak-ului, cu a doua cea mai mare rezerva de petrol descoperita din Orientul Mijlociu, si moneda de comercializare a petrolului. De vreme de productia nationala de petrol a Americii a scazut, aceasta depinde din ce in ce mai mult de importuri, inclusiv din tarile Orientului Mijlociu. Astfel, asigurarea controlul petrolului din Irak inainte sa se atinga "varful petrolului" a fost scopul principal al administratiei americane, pentru a forta Irakul sa-si creasca productia si sa scada pretul petrolului.*