The following is an amalgamation of sources at: http://richmond.indymedia.org/front.php3?article_id=2567&group=webcast and http://stlouis.indymedia.org/front.php3?article_id=4710&group=webcast

---

The Real Reasons for the Upcoming War With Iraq:

A Macroeconomic and Geostrategic Analysis of the Unspoken Truth

by W. Clark

January 2003

Independent Media Center

www.indymedia.org

summary

Although completely suppressed in the U.S. media, the answer to the Iraq enigma is simple yet shocking -- it is an oil **currency** war. The real reason for this upcoming war is this administration's goal of preventing further Organization of the Petroleum Exporting Countries (OPEC) momentum towards the euro as an oil transaction currency standard. However, in order to pre-empt OPEC, they need to gain geo-strategic control of Iraq along with its 2nd largest proven oil reserves. This lengthy essay will discuss the macroeconomics of the 'petro-dollar' and the unpublicized but real threat to U.S. economic hegemony from the euro as an alternative oil transaction currency.

> "If a nation expects to be ignorant and free, it expects what never was and never will be . . . The People cannot be safe without information. When the press is free, and every man is able to read, all is safe."

Those words by Thomas Jefferson embody the unfortunate state of affairs that have beset our nation. As our government prepares to go to war with Iraq, our country seems unable to answer even the most basic questions about this war. First, why is there virtually no international support to topple Saddam? If Iraq's weapons of mass destruction (WMD) program truly possessed the threat level that President Bush has repeatedly purported, why is there no international coalition to militarily disarm Saddam? Secondly, despite over 300 unfettered U.N

inspections to date, there has been no evidence reported of a reconstituted Iraqi WMD program. Third, and despite Bush's rhetoric, the CIA has not found any links between Saddam Hussein and Al Qaeda. To the contrary, some analysts believe it is far more likely Al Qaeda might acquire an unsecured former Soviet Union Weapon(s) of Mass Destruction, or potentially from sympathizers within a destabilized Pakistan.

Moreover, immediately following Congress's vote on the Iraq Resolution, we suddenly became aware of North Korea's nuclear program violations. Kim Jong Il is processing uranium in order to produce nuclear weapons this year. President Bush has not provided a rationale answer as to why Saddam's seemingly dormant WMD program possesses a more imminent threat that North Korea's active program. Strangely, Donald Rumsfeld suggested that if Saddam were 'exiled' we could avoid an Iraq war. Confused yet? Well, I'm going to give their game away -- the core driver for toppling Saddam is actually the euro currency, the € .

Although completely suppressed in the U.S. media, the answer to the Iraq enigma is simple yet shocking. The upcoming war in Iraq war is mostly about how the ruling class at Langley and the Bush oligarchy view hydrocarbons at the geo-strategic level, and the overarching macroeconomic threats to the U.S. dollar from the euro. The Real Reason for this upcoming war is this administration's goal of preventing further OPEC momentum towards the euro as an oil transaction currency standard. However, in order to pre-empt OPEC, they need to gain geo-strategic control of Iraq along with its 2nd largest proven oil reserves.

This lengthy essay will discuss the macroeconomics of the 'petro-dollar' and the unpublicized but real threat to U.S. economic hegemony from the euro as an alternative oil transaction currency. The following is how an astute and anonymous friend alluded to the unspoken truth about this upcoming war with Iraq:

> "The Federal Reserve's greatest nightmare is that OPEC will switch its international transactions from a dollar standard to a euro standard. Iraq actually made this switch in Nov. 2000 (when the euro was worth around 80 cents), and has actually made off like a bandit considering the dollar's steady depreciation against the euro. (Note: the dollar declined 17% against the euro in 2002.)
>
> "The real reason the Bush administration wants a puppet government in Iraq -- or more importantly, the reason why the corporate-military-industrial network conglomerate wants a puppet government in Iraq -- is so that it will revert back to a dollar standard and stay that way." (While also hoping to veto any wider OPEC momentum towards the euro, especially from Iran -- the 2nd largest OPEC producer who is actively discussing a switch to euros for its oil exports)."

Furthermore, despite Saudi Arabia being our 'client state,' the Saudi regime appears increasingly weak/ threatened from massive civil unrest. Some analysts believe a 'Saudi Revolution' might be plausible in the aftermath of an unpopular U.S. invasion of Iraq (ie. Iran circa 1979) [1]. Undoubtedly, the Bush administration is acutely aware of these risks. Hence, the neo-conservative framework entails a large and permanent military presence in the Persian Gulf region in a post Saddam era, just in case we need to surround and grab Saudi's oil fields in the event of a coup by an anti-western group. But first back to Iraq.

> "Saddam sealed his fate when he decided to switch to the euro in late 2000 (and later converted his $10 billion reserve fund at the U.N. to euros) -- at that point, another manufactured Gulf War become inevitable under Bush II. Only the most extreme circumstances could possibly stop that now and I strongly doubt anything can -- short of Saddam getting replaced with a pliant regime.

"Big Picture Perspective: Everything else aside from the reserve currency and the Saudi/Iran oil issues (i.e. domestic political issues and international criticism) is peripheral and of marginal consequence to this administration. Further, the dollar-euro threat is powerful enough that they will rather risk much of the economic backlash in the short-term to stave off the long-term dollar crash of an OPEC transaction standard change from dollars to euros. All of this fits into the broader Great Game that encompasses Russia, India, China."

This information about Iraq's oil currency is censored by the U.S. media and the Bush administration as the truth could potentially curtail both investor and consumer confidence, reduce consumer borrowing/spending, create political pressure to form a new energy policy that slowly weans us off middle-eastern oil, and of course stop our march towards war in Iraq. This quasi 'state secret' can be found on a Radio Free Europe article discussing Saddam's switch for his oil sales from dollars to the euros on Nov. 6, 2000:

"Baghdad's switch from the dollar to the euro for oil trading is intended to rebuke Washington's hard-line on sanctions and encourage Europeans to challenge it. But the political message will cost Iraq millions in lost revenue. RFE/RL correspondent Charles Recknagel looks at what Baghdad will gain and lose, and the impact of the decision to go with the European currency." [2]

At the time of the switch many analysts were surprised that Saddam was willing to give up millions in oil revenue for what appeared to be a political statement. However, contrary to one of the main points of this November 2000 article, the steady depreciation of the dollar versus the euro since late 2001 means that Iraq has profited handsomely from the switch in their reserve and transaction currencies. The euro has gained roughly 17% against the dollar in that time, which also applies to the $10 billion in Iraq's U.N. 'oil for food' reserve fund that was previously held in dollars has also gained that same percent value since the switch. What would happen if OPEC made a sudden switch to euros, as opposed to a gradual transition?

"Otherwise, 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 anywhere from 20-40% 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. Your basic 3rd world economic crisis scenario.

"The United States economy is intimately tied to the dollar's role as reserve currency. This doesn't mean that the U.S. couldn't function otherwise, but that the transition would have to be gradual to avoid such dislocations (and the ultimate result of this would probably be the U.S. and the E.U. switching roles in the global economy)."

In the aftermath of toppling Saddam it is clear the U.S. will keep a large and permanent military force in the Persian Gulf. Indeed, there is no 'exit strategy' in Iraq, as the military will be needed to protect the newly installed Iraqi regime, and perhaps send a message to other OPEC producers that they might receive 'regime change' if they convert their oil exports to the euro.

Another underreported story from this summer related to another OPEC 'Axis of Evil' country, Iran, who is vacillating on the euro issue.

"Iran's proposal to receive payments for crude oil sales to Europe in euros instead of U.S. dollars is based primarily on economics, Iranian and industry sources said.

"But politics are still likely to be a factor in any decision, they said, as Iran uses the opportunity to hit back at the U.S. government, which recently labeled it part of an 'axis of evil.'

"The proposal, which is now being reviewed by the Central Bank of Iran, is likely to be approved if presented to the country's parliament, a parliamentary representative said.

"'There is a very good chance MPs will agree to this idea . . . now that the euro is stronger, it is more logical,' the parliamentary representative said." [3]

Moreover, and perhaps most telling, during 2002 the majority of reserve funds in Iran's central bank have been shifted to euros. It appears imminent that Iran intends to switch to euros for their oil currency.

"More than half of the country's assets in the Forex Reserve Fund have been converted to euro, a member of the Parliament Development Commission, Mohammad Abasspour announced. He noted that higher parity rate of euro against the US dollar will give the Asian countries, particularly oil exporters, a chance to usher in a new chapter in ties with European Union's member countries.

"He said that the United States dominates other countries through its currency, noting that given the superiority of the dollar against other hard currencies, the US monopolizes global trade. The lawmaker expressed hope that the competition between euro and dollar would eliminate the monopoly in global trade." [4]

After toppling Saddam, this administration may decide that Iran's disloyalty to the dollar qualifies them as the next target in the 'war on terror.' Iran's interest in switching to the euro as their currency for oil exports is well documented. Perhaps this *MSNBC* article alludes to the objectives of neo-conservatives.

"While still wrangling over how to overthrow Iraq's Saddam Hussein, the Bush administration is already looking for other targets. President Bush has called for the ouster of Palestinian leader Yasir Arafat. Now some in the administration -- and allies at D.C. think tanks -- are eyeing Iran and even Saudi Arabia. As one senior British official put it: 'Everyone wants to go to Baghdad. Real men want to go to Tehran.'" [5]

Aside from these political risks regarding Saudi Arabia and Iran, another risk factor is actually Japan. Perhaps the biggest gamble in a protracted Iraq war may be Japan's weak economy. [6] If the war creates prolonged oil high prices ($45 per barrel over several months), or a short but massive oil price spike ($80 to $100 per barrel), some analysts believe Japan's fragile economy would collapse. Japan is quite hypersensitive to oil prices, and if its banks default, the collapse of the second largest economy would set in motion a sequence of events that would prove devastating to the U.S. economy. Indeed, Japan's fall in an Iraq war could create the economic dislocations that begin in the Pacific Rim but quickly spread to Europe and Russia. The Russian government lacks the controls to thwart a disorderly run on the dollar, and such an event could ultimately force an OPEC switch to euros.

Additionally, other risks might arise if the Iraq war goes poorly or becomes prolonged. It is possible that civil unrest may unfold in Kuwait or other OPEC members including Venezuela, as the latter may switch to euros just as Saddam did in November 2000. This would foster the very situation this administration is trying to prevent: another OPEC member switching to euros as their oil transaction currency.

Incidentally, the final 'Axis of Evil' country, North Korea, recently decided to officially drop the dollar and begin using euros for trade, effective Dec. 7, 2002. [7] Unlike the OPEC-producers, North Korea's switch will have negligible economic impact, but it illustrates the geopolitical fallout of Bush's harsh rhetoric. Much more troubling are North Korea's recent actions following the oil embargo of their country. They are in dire need of oil and food; and in an act of desperation they have re-activated their pre-1994 nuclear program. Processing uranium appears to be taking place at a rapid pace, and it appears their strategy is to prompt negotiations with the U.S. regarding food and oil. The CIA estimates that North Korea could produce 4-6 nuclear weapons by the second half of 2003. Ironically, this crisis over North Korea's nuclear program further confirms the fraudulent premise for which this war with Saddam was entirely contrived.

Unfortunately, neo-conservatives such as George Bush, Dick Cheney, Donald Rumsfeld, Paul Wolfowitz and Richard Pearle fail to grasp that Newton's Law applies equally to both physics and the geo-political sphere as well: "For every action there is an equal but opposite reaction."

During the 1990s the world viewed the U.S. as a rather self-absorbed but essentially benevolent superpower. Military actions in Iraq (1990-91 & 1998), Serbia and Kosovo (1999) were undertaken with both U.N. and NATO cooperation and thus afforded international legitimacy. President Clinton also worked to reduce tensions in Northern Ireland and attempted to negotiate a resolution to the Israeli-Palestinian conflict.

However, in both the pre and post 9/11 intervals, the 'America first' policies of the Bush administration, with its unwillingness to honor International Treaties, along with their aggressive militarisation of foreign policy, has significantly damaged our reputation abroad. Following 9/11, it appears that President Bush's 'warmongering rhetoric' has created global tensions -- as we are now viewed as a belligerent superpower willing to apply unilateral military force without U.N. approval.

Lamentably, the tremendous amount of international sympathy that we witnessed in the immediate aftermath of the September 11th tragedy has been replaced with fear and anger at our government. This administration's bellicosity has changed the worldview, and 'anti-Americanism' is proliferating even among our closest allies. [8]

Even more alarming, and completely unreported in the U.S media, are some monetary shifts in the reserve funds of foreign governments away from the dollar with movements towards the euro. [9] It appears that the world community may lack faith in the Bush administration's economic policies, and along with OPEC, seems poised to respond with economic retribution if the U.S. government is regarded as an uncontrollable and dangerous superpower. The plausibility of abandoning the dollar standard for the euro is growing. An interesting U.K. article by Hazel Henderson outlines the dynamics and the potential outcomes:

> The most likely end to US hegemony may come about through a combination of high oil prices (brought about by US foreign policies toward the Middle East) and deeper devaluation of the US dollar (expected by many economists). Some elements of this scenario:
>
> 1. US global over-reach in the 'war on terrorism' already leading to deficits as far as the eye can see -- combined with historically-high US trade deficits -- lead to a further run on the dollar. This and the stock market doldrums make the US less attractive to the world's capital.
> 2. More developing countries follow the lead of Venezuela and China in diversifying their currency reserves away from dollars and balanced with euros. Such a shift in dollar-euro holdings in Latin America and Asia could keep the dollar and euro close to parity.

3. OPEC could act on some of its internal discussions and decide (after concerted buying of euros in the open market) to announce at a future meeting in Vienna that OPEC's oil will be re-denominated in euros, or even a new oil-backed currency of their own. A US attack on Iraq sends oil to € 40 (euros) per barrel.
4. The Bush Administration's efforts to control the domestic political agenda backfires. Damage over the intelligence failures prior to 9/11 and warnings of imminent new terrorist attacks precipitate a further stock market slide.
5. All efforts by Democrats and the 57% of the US public to shift energy policy toward renewables, efficiency, standards, higher gas taxes, etc. are blocked by the Bush Administration and its fossil fuel industry supporters. Thus, the USA remains vulnerable to energy supply and price shocks.
6. The EU recognizes its own economic and political power as the euro rises further and becomes the world's other reserve currency. The G-8 pegs the euro and dollar into a trading band -- removing these two powerful currencies from speculators trading screens (a "win-win" for everyone!). Tony Blair persuades Brits of this larger reason for the UK to join the euro.
7. Developing countries lacking dollars or "hard" currencies follow Venezuela's lead and begin bartering their undervalued commodities directly with each other in computerized swaps and counter trade deals. President Chavez has inked 13 such country barter deals on its oil, e.g., with Cuba in exchange for Cuban health paramedics who are setting up clinics in rural Venezuelan villages.

> The result of this scenario? The USA could no longer run its huge current account trade deficits or continue to wage open-ended global war on terrorism or evil. The USA ceases pursuing unilateralist policies. A new US administration begins to return to its multilateralist tradition, ceases its obstruction and rejoins the UN and pursues more realistic international cooperation. [10]

As for the events currently taking place in Venezuela, items #2 and #7 on the above list may allude to why the Bush administration quickly endorsed the failed military-led coup of Hugo Chavez in April 2002. Although the coup collapsed after 2 days, various reports suggest the CIA and a rather embarrassed Bush administration approved and may have been actively involved with the civilian/military coup plotters.

> "George W. Bush's administration was the failed coup's primary loser, underscoring its bankrupt hemispheric policy. Now it is slowly filtering out that in recent months White House officials met with key coup figures, including Carmona. Although the administration insists that it explicitly objected to any extra-constitutional action to remove Chavez, comments by senior U.S. officials did little to convey this. . . .
>
> "The CIA's role in a 1971 Chilean strike could have served as the working model for generating economic and social instability in order to topple Chavez. In the truckers' strike of that year, the agency secretly orchestrated and financed the artificial prolongation of a contrived work stoppage in order to economically asphyxiate the leftist Salvador Allende government.
>
> "This scenario would have had CIA operatives acting in liaison with the Venezuelan military, as well as with opposition business and labor leaders, to convert a relatively minor afternoon-long work stoppage by senior management into a nearly successful coup de grâce." [11]

Interestingly, according to an article by Michael Ruppert, Venezuelan's ambassador Francisco Mieres-Lopez apparently floated the idea of switching to the euro as their oil currency standard approximately one year before the failed coup attempt. Furthermore, there is evidence that the CIA is still active in its attempts to overthrow the democratically elected Chavez administration. In fact, this past December a Uruguayan government official exposed the ongoing covert CIA operations in Venezuela:

> "Uruguayan EP-FA congressman Jose Nayardi says he has information that far-reaching plan have been put into place by the CIA and other North American intelligence agencies to overthrow Venezuelan President Hugo Chavez Frias within the next 72 hours. . . .

> Nayardi says he has received copies of top-secret communications between the Bush administration in Washington and the government of Uruguay requesting the latter's cooperation to support white collar executives and trade union activists to 'break down levels of intransigence within the Chavez Frias administration.'" [12]

Venezuela is the fourth largest producer of oil, and the corporate elites whose political power runs unfettered in the Bush/Cheney oligarchy appear interested in privatizing Venezuela's oil industry. Furthermore, the establishment might be concerned that Chavez's 'barter deals' with 12 Latin American countries and Cuba are effectively cutting the U.S. dollar out of the vital oil transaction currency cycle. Commodities are being traded among these countries in exchange for Venezuela's oil, thereby reducing reliance on fiat dollars. If these unique oil transactions proliferate, they could create more devaluation pressure on the dollar. Continuing attempts by the CIA to remove Hugo Chavez appear likely.

The U.S. economy has acquired significant structural imbalances, including our record-high trade account deficit (now almost 5% of GDP), a $6.3 trillion dollar deficit (60% of GDP), and the recent return to annual budget deficits in the hundreds of billions. These are factors that would devalue the currency of any nation under the 'old rules.' Why is the dollar still predominant despite these structural flaws? The elites understand that the strength of the dollar does not merely rest on our economic output per se. The dollar posses two unique advantages relative to all other hard currencies.

The reality is that the strength of the dollar since 1945 rests on its being the international reserve currency. Thus it assumes the role of fiat currency for global oil transactions (ie. 'petro-dollar'). The U.S. prints hundreds of billions of these fiat petro-dollars, which are then used by nation states to purchase oil/energy from OPEC producers (except Iraq, to some degree Venezuela, and perhaps Iran in the near future). 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 'old rules' for valuation of our currency and economic power were based on our flexible market, free flow of trade goods, high per worker productivity, manufacturing output/trade surpluses, government oversight of accounting methodologies (ie. SEC), developed infrastructure, education system, and of course total cash flow and profitability. While many of these factors remain present, over the last two decades we have diluted some of these 'safe harbor' fundamentals. Despite vast imbalances and structural problems that are escalating within the U.S. economy, the dollar as the fiat oil currency created 'new rules'. The following excerpts from an *Asia Times* article discusses the virtues of our fiat oil currency and dollar hegemony (or vices from the perspective of developing nations, whose debt is denominated in dollars).

> "Ever since 1971, when US president Richard Nixon took the dollar off the gold standard (at $35 per ounce) that had been agreed to at the Bretton Woods Conference at the end of World War II, the dollar has been a global monetary instrument that the United States, and only the United States, can produce by fiat. The dollar, now a fiat currency, is at a 16-year trade-weighted high despite record US current-account deficits and the status of the US as the leading debtor nation. The US national debt as of April 4 was $6.021 trillion against a gross domestic product (GDP) of $9 trillion.
>
> "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.

". . . The US capital-account surplus in turn finances the US trade deficit. Moreover, any asset, regardless of location, that is denominated in dollars is a US asset in essence. When oil is denominated in dollars through US state action and the dollar is a fiat currency, the US essentially owns the world's oil for free. And the more the US prints greenbacks, the higher the price of US assets will rise. Thus a strong-dollar policy gives the US a double win." [13]

This unique geo-political agreement with Saudi Arabia in 1973 has worked to our favor for the past 30 years, as this arrangement has raised the entire asset value of all dollar denominated assets/properties, and allowed the Federal Reserve to create a truly massive debt and credit expansion (or 'credit bubble' in the view of some economists). These structural imbalances in the U.S. economy are sustainable as long as:

1. nations continue to demand and purchase oil for their energy/survival needs, and
2. the fiat reserve currency for global oil transactions remain the U.S. dollar (and dollar only).

These underlying factors, along with the 'safe harbor' reputation of U.S. investments afforded by the dollar's reserve currency status propelled the U.S. to economic and military hegemony in the post-World War II period. However, the introduction of the euro is a significant new factor, and appears to be the primary threat to U.S. economic hegemony. Moreover, in December 2002 ten additional countries were approved for full membership into the E.U. In 2004 this will result in an aggregate GDP of $9.6 trillion and 450 million people, directly competing with the U.S. economy ($10.5 trillion GDP, 280 million people).

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. These vital stories are discussed in the European media, but have been censored by our own mass media.

". . . 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. As we all know, the mighty dollar has reigned supreme since 1945, and in the last few years has even gained more ground with the economic dominance of the United States, a situation that may not change in the near future. By the late 90s, more than four-fifths of all foreign exchange transactions, and half of all world exports, were denominated in dollars. In addition, the US currency accounts for about two thirds of all official exchange reserves. The world's dependency on US dollars to pay for trade has seen countries bound to dollar reserves, which are disproportionably higher than America's share in global output. The share of the dollar in the denomination of world trade is also much higher than the share of the US in world trade.

"Having said that, 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, especially given the EU enlargement plans. 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. . . .

". . . From the EU's point of view, it is clear that Europe would prefer to see payments for oil shift from the dollar to the euro, which effectively removed the currency risk. It would also increase demand for the euro and thus help raise its value. Moreover, since oil is such an important commodity in global trade, in term of value, if pricing were to shift to the euro, it could provide a boost to the global acceptability of the single currency. There is also very strong trade links between OPEC Member Countries (MCs) and the Euro-zone, with more than 45 percent of total merchandise imports of OPEC MCs coming from the countries of the Euro-zone, while OPEC MCs are main suppliers of oil and crude oil products to Europe. . . .

"Of major importance to the ultimate success of the euro, in terms of the oil pricing, will be if Europe's two major oil producers -- the United Kingdom and Norway join the single currency. Naturally, the future integration of these two countries into the Euro-zone and Europe will be important considering they are the region's two major oil producers in the North Sea, which is home to the international crude oil benchmark, Brent. This might create a momentum to shift the oil pricing system to euros. . . .

"In the short-term, OPEC MCs, with possibly a few exceptions, are expected to continue to accept payment in dollars. Nevertheless, I believe that OPEC will not discount entirely the possibility of adopting euro pricing and payments in the future. The Organization, like many other financial houses at present, is also assessing how the euro will settle into its life as a new currency. The critical question for market players is the overall value and stability of the euro, and whether other countries within the Union will adopt the single currency.

". . . Should the euro challenge the dollar in strength, which essentially could include it in the denomination of the oil bill, it could be that a system may emerge which benefits more countries in the long-term. Perhaps with increased European integration and a strong European economy, this may become a reality. Time may be on your side. I wish the euro every success." [14]

Based on this important speech, momentum for OPEC to consider switching to the euro will grow once the E.U. expands in May 2004 to 450 million people with the inclusion of 10 additional member states. The aggregate GDP will increase from $7 trillion to $9.6 trillion. This enlarged European Union (EU) will be an oil consuming purchasing population 33% larger than the U.S., and over half of OPEC crude oil will be sold to the EU as of mid-2004. This does not include other potential E.U./euro entrants such as the U.K., Norway, Denmark and Sweden. It should be noted that since late 2002, the euro has been trading at parity or above the dollar, and analysts predict the dollar will continue its downward trending in 2003 relative to the euro.

It appears the final two pivotal items that would create the OPEC transition to euros will be based on (1) if and when Norway's Brent crude is re-dominated in euros and (2) when the U.K. adopts the euro. Regarding the later, Tony Blair is lobbying heavily for the U.K. to adopt the euro, and their adoption would seem imminent within this decade. If and when the U.K. adopts the euro currency I suspect a concerted effort will be quickly mounted to establish the euro as an international reserve currency. Again, I offer the following information from my astute acquaintance who analyzes these monetary matters very carefully:

"The pivotal vote will probably be Sweden, where approval this next autumn of adopting the euro also would give momentum to the Danish government's strong desire to follow suit. Polls in Denmark now indicate that the euro would pass with a comfortable margin and Norwegian polls show a growing majority in favor of EU membership. Indeed, with Norway having already integrated most EU economic directives through the EEA partnership and with their strongly appreciated currency, their accession to the euro would not only be effortless, but of great economic benefit.

"As go the Swedes, so probably will go the Danes & Norwegians. It's the British who are the real obstacle to building momentum for the euro as international transaction & reserve currency. So long as the United Kingdom remains apart from the euro, reducing exchange rate costs between the euro and the British pound remains their obvious priority. British adoption (a near-given in the long run) would mount significant pressure toward repegging the Brent crude benchmark -- which is traded on the International Petroleum Exchange in London -- and the Norwegians would certainly have no objection whatsoever that I can think of, whether or not they join the European Union.

"Finally, the maneuvers toward reducing the global dominance of the dollar are already well underway and have only reason to accelerate so far as I can see. An OPEC pricing shift would seem rather unlikely prior 2004 -- barring political motivations (ie. from anxious OPEC members) or a disorderly collapse of the dollar (ie. Japanese bank collapse due to high oil prices following a prolonged Iraq conflict) but appears quite viable to take place before the end of the decade."

In other words, around 2005, from a purely economic and monetary perspective, it will be logical for OPEC to switch to the euro for oil pricing. Of course that will devalue the dollar, and hurt the US economy unless it begins making some structural changes -- or use its massive military power to force events upon OPEC . . . Facing these potentialities, I hypothesize that President Bush intends 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 regime (apparently a U.S. General) will convert Iraq back to the dollar standard. Next, with the U.S. military protecting the oil fields, the new ruling junta will undertake the necessary steps to rapidly increase production of Iraq oil -- well beyond OPEC's 2 million barrel per day quota.

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 it will serve as 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 OPEC:

". . . Despite this vast pool of oil, Iraq has never produced at a level proportionate to the reserve base. Since the Gulf War, IraqÂ¹s 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.

"Total world oil production is about 75 million barrels, and OPEC combined produces about 25 million barrels.

"What would be the consequences of this? There are two obvious things.

"First would be the collapse of OPEC, whose strategy of limiting production to maximize price will have finally reached its limit. An Iraq that can produce that much oil will want to do so, and will not allow OPEC to limit it to 2 million barrels per day. If Iraq busts its quota, then who in OPEC will give up 5 million barrels of production? No one could afford to, and OPEC would die. This would lead to the second major consequence, which is a collapse in the price of oil to the 10-dollar range per barrel. The world currently uses 25 billion barrels per year, so a 15-dollar drop will save oil-consuming nations 375 billion dollars in crude oil costs every year.

". . . The Iraq war is not a moneymaker. But it could be an OPEC breaker. That however is a long-term outcome that will require Iraq to be successfully reconstituted into a functioning state in which massive oil sector investment can take place." [15]

The American people are largely oblivious to the economic risks regarding President Bush's upcoming war. Not only is Japan's weakened economy at grave risk from a spike in oil prices, but additional risks relate to Iran and Venezuela as well, either of whom could move to the euros, thus providing further momentum for OPEC to act on their 'internal discussions' and switch to the euro as their new oil currency. The Bush administration believes that by toppling Saddam they will remove the juggernaut, thus allowing the US to control Iraqi's huge oil reserves, and finally break-up and dissolve the 10 remaining countries in OPEC.

This last issue is undoubtedly a significant gamble even in the best-case scenario of a quick and relatively painless war that topples Saddam and leaves Iraq's oil fields intact. Undoubtedly, the OPEC cartel could feel threatened by the goal of the neo-conservatives to break-up OPEC's price controls ($22-$28 per barrel). Perhaps the Bush administration's ambitious goal of flooding the oil market with Iraqi crude may work, but I have doubts. Will OPEC simply tolerate quota-busting Iraqi oil production, thus delivering to them a lesson in self-inflicted hara-kiri (suicide)? Contrarily, OPEC could meet in Vienna and in an act of self-preservation re-denominate the oil currency to the euro. Such a decision would mark the end of U.S. dollar hegemony, and thus the end of our precarious economic superpower status. Again, I offer the astute analysis of my expert friend regarding the colossal gamble this administration is about to undertake:

"One of the dirty little secrets of today's international order is that the rest of the globe could topple the United States from its hegemonic status whenever they so choose with a concerted abandonment of the dollar standard. This is America's preeminent, inescapable Achilles Heel for now and the foreseeable future.

"That such a course hasn't been pursued to date bears more relation to the fact that other Westernized, highly developed nations haven't any interest to undergo the great disruptions which would follow -- but it could assuredly take place in the event that the consensus view coalesces of the United States as any sort of 'rogue' nation. In other words, if the dangers of American global hegemony are ever perceived as a greater liability than the dangers of toppling the international order (or, alternately, if an 'every man for himself' crisis as discussed above spirals out of control and forces their hand). The Bush administration and the neo-conservative movement has set out on a multiple-front course to ensure that this cannot take place, in brief by a graduated assertion of military hegemony atop the existent economic hegemony.

Regrettably, under this administration we have returned to massive deficit spending, and the lack of strong SEC enforcement has further eroded investor confidence. Indeed, the flawed economic and tax policies and of the Bush administration may be exacerbating the weakness of the dollar, if not outright accelerating some countries to diversify their central bank reserve funds with euros as an alternative to the dollar. From a foreign policy perspective, the terminations of numerous international treaties and disdain for international cooperation via the U.N. and NATO have angered even our closest allies.

Synopsis:

It would appear that any attempt by OPEC member states in the Middle East or Latin America to transition to the euro as their oil transaction currency standard shall be met with either overt U.S. military actions or covert U.S. intelligence agency interventions. Under the guise of the perpetual 'war on terror' the Bush administration is manipulating the American people about the unspoken but very real macroeconomic reasons for this upcoming war with Iraq. This war in Iraq will not be based on any threat from Saddam's old WMD program, or from terrorism. This war will be over the global currency of oil.

Sadly, the U.S. has become largely ignorant and complacent. Too many of us are willing to be ruled by fear and lies, rather than by persuasion and truth. Will we allow our government to initiate the dangerous 'pre-emptive doctrine' by waging an unpopular war in Iraq, while we refuse to acknowledge that Saddam does not pose an imminent threat to the United States? Furthermore, we seem unable to address the structural weakness of our economy due to massive debt manipulation, unaffordable 2001 tax cuts, record levels of trade deficits, corporate accounting abuses, unsustainable credit expansion, near zero personal savings, record personal indebtedness, and our dependence and over consumption of Middle Eastern oil.

Regardless of whatever Dr. Blix finds or doesn't find in Iraq regarding WMD, it appears that President Bush is determined to pursue his 'pre-emptive' imperialist war to secure a large portion of the earth's remaining hydrocarbons, and then use Iraq's underutilized oil to destroy the OPEC cartel. Will this gamble work? That remains to be seen. However, it is quite plausible that our nation may suffer not only from increased Al-Qaeda sponsored terrorism, but economic retribution from the international community or OPEC members as well. Will we sit idle and watch *CNN,* as our government becomes an international pariah by discarding international law as it wages a unilateral war in Iraq? How can we effectively thwart the threat of international Al Qaeda terrorism if we alienate so many of our allies?

We must ask ourselves this fundamental question: Is it morally defensible to deploy our brave but naïve young soldiers around the globe to enforce U.S. dollar hegemony for global oil transactions via the barrels of their guns? Will we allow imperialist conquest of the Middle East to feed our excessive oil consumption, while ignoring the duplicitous overthrowing of a democratically elected government in Latin America? Is it acceptable for a U.S. President to threaten military force upon OPEC nation state(s) because of their sovereign choice of currency regarding their oil exports? Paradoxically, these belligerent policies may bring about the dire outcome this administration hopes to prevent -- an OPEC currency switch to euros. Thus, remaining silent is not only misguided, but false patriotism. We must not stand silent and watch our country become a 'rogue' superpower, relying on brute force, thereby forcing the developed nations or OPEC to abandon the dollar standard -- and with the mere stroke of a pen -- slay the U.S. Empire.

This need not be our fate. When will we demand that our government begin the long and difficult journey towards energy conservation, the development of renewable energy sources, and sustained balanced budgets to allow real deficit reduction? When will we repeal the unaffordable 2001 tax cuts to create a balanced budget, enforce corporate accounting laws, and substantially reinvest in our manufacturing and export sectors to gradually but earnestly move our economy from a trade account deficit position back into a trade account surplus position? Undoubtedly, we must make these and many more structural changes to our economy if we are to restore and maintain our international "safe harbor investment status.

Equally important, we must bear in mind the wisdom of founding fathers like Thomas Jefferson's who insisted that a free press is vital, as it is our best, and often the only mechanism to protect democracy. The American people are not aware of the issues discussed in this essay because the U.S. mass

media has been reduced to a handful of consumption/entertainment and profit-oriented conglomerates that filter the flow of information within the U.S. Sadly, part of today's dilemma lays within these U.S. media conglomerates that have failed in their responsibilities to inform the People. Our Congress must enact reforms, as this is a legitimate threat to our democracy. The Internet should not be our only source of real, unfiltered news.

Furthermore, it would seem imperative that our government begins discussions with the E.U. to reform the global monetary system. We must adopt our economy to accommodate the inevitable competition from the euro as an alternative international reserve currency. I concur with those enlightened economists who recommend that we create a dollar-euro exchange band with reserve status parity, and a dual-OPEC oil transaction standard. However, the Bush administration's entrenched political ideology appears quite incompatible with these necessary economic reforms. Ultimately We must demand a new administration. We need responsible leaders who are willing to return to balanced budgets, conservative fiscal policies, and to our traditions of engaging in multilateral foreign policies while seeking broad international cooperation.

It has been said that all wars are fought over resources or ideology/religion. It appears that the Bush administration may soon add 'oil currency war' as a third paradigm. I fear that the world community will not tolerate a U.S. Empire that uses its military power to conquer sovereign nations who decide to sell their oil products in euros instead of dollars. Likewise, if President Bush pursues an essentially unilateral war against Iraq, I doubt the historians will be kind to him or his administration. Their agenda is clear to the world community, but when will U.S. patriots become cognizant of their *modus operandi*?

> "If you tell a lie big enough and keep repeating it, people will eventually come to believe it.
>
> "The lie can be maintained only for such time as the State can shield the people from the political, economic and/or military consequences of the lie. It thus becomes vitally important for the State to use all of its powers to repress dissent, for the truth is the mortal enemy of the lie, and thus by extension, the truth is the greatest enemy of the State."
>
> -- Joseph Goebbels, German Minister of Propaganda, 1933-1945

Background Information on Hydrocarbons

To understand hydrocarbons and how we got to this desperate place in Iraq, I have listed four articles in the Reference Section from Michael Ruppert's controversial website: From the Wilderness. Although some of Ruppert's articles are overwrought from time to time, their research detailing the issues of hydrocarbons, and the interplay between energy and the Bush junta's perpetual 'war on terror' is quite informative.

Other than the core driver of the dollar versus euro currency threat, the other issue related to the upcoming war with Iraq appears related to the Caspian Sea region. Since the mid-late 1990s the Caspian Sea region of Central Asia was thought to hold approximately 200 billion barrels of untapped oil (the later would be comparable to Saudi Arabia's reserve base)." [16] Based on an early feasibility study by Enron, the easiest and cheapest way to bring this oil to market would be a pipeline from Kazakhstan, through Afghanistan to the Pakistan border at Malta. In 1998 then CEO of Halliburton, Dick Cheney, expressed much interest in building that pipeline.

In fact, these oil reserves were a *central* component of Cheney's energy plan released in May 2001. According to his report, the U.S. will import 90% of its oil by 2020, and thus tapping into the reserves in the Caspian Sea region was viewed as a strategic goal that would help meet our growing energy demand, and also reduce our dependence on oil from the Middle East." [17]

According to the French book, *The Forbidden Truth,* [18] the Bush administration ignored the U.N. sanctions that had been imposed upon the Taliban and entered into negotiations with the supposedly 'rogue regime' from February 2, 2001 to August 6, 2001. According to this book, the Taliban were apparently not very cooperative based on the statements of Pakistan's former ambassador, Mr. Naik. He reports that the U.S. threatened a 'military option' in the summer of 2001 if the Taliban did not acquiesce to our demands. Fortuitous for the Bush administration and Cheney's energy plan, Bin Laden delivered to us 9/11. The pre-positioned U.S. military, along with the CIA providing cash to the Northern Alliance leaders, led the invasion of Afghanistan and the Taliban were routed. The pro-western Karzai government was ushered in. The pipeline project was now back on track in early 2002, well, sort of . . .

After three exploratory wells were built and analyzed, it was reported that the Caspian region holds only approximately 10 to 20 billion barrels of oil (although it does have a lot of natural gas)." [16] The oil is also of poor quality, with high sulfur content. Subsequently, several major companies have now dropped their plans for the pipeline citing the massive project was no longer profitable. Unfortunately, this recent realization about the Caspian Sea region has serious implications for the U.S., India, China, Asia and Europe, as the amount of available hydrocarbons for industrialized and developing nations has been decreased downward by 20%. (Global estimates reduced from 1.2 trillion to approximately 1 trillion) [18,19]. The Bush administration quickly turned its attention to a known quantity, Iraq, with its proven reserves totaling 11% of the world's oil reserves. Our greatest nemesis, Bin Laden, was quickly replaced with our new public enemy #1, Saddam Hussein.

For those who would like to review the impact of depleting hydrocarbon reserves from the geo-political perspective, and the potential ramifications to how these developments may erode our civil liberties and democratic processes, retired U.S. Special Forces officer Stan Goff offers a sobering analysis in his essay: 'The Infinite War and Its Roots'. [20] Likewise, for those who wish to review some of the unspeakable evidence surrounding the September 11th tragedy, the controversial essay 'The Enemy Within' by the Gore Vidal offers a thorough introduction. Although this essay was published in Italy and *The [UK] Observer*, you will not find it printed in the U.S. media. Vidal's latest book, *Dreaming War* features this as the opening essay. [21] Finally, *The War on Freedom: How and Why America was Attacked, September 11, 2001* by British political scientist Nafeez Mosaddeq Ahmed presents fundamentally disconcerting questions about the 9/11 tragedy and is highly illuminating. [22]

References:

1. London, Heidi Kingstone, "Middle East: Trouble in the House of Saud," *The Jerusalem Report* (January 13, 2003)
   http://www.jrep.com/Mideast/Article-0.html
2. Recknagel, Charles, "Iraq: Baghdad Moves to Euro," *Radio Free Europe* (November 1, 2000)
   http://www.rferl.org/nca/features/2000/11/01112000160846.asp
3. "Economics Drive Iran Euro Oil Plan, Politics Also Key," *IranExpert* (August 23, 2002)
   http://www.iranexpert.com/2002/economicsdriveiraneurooil23august.htm
4. "Forex Fund Shifting to Euro," *Iran Financial News*, (August 25, 2002)

http://www.payvand.com/news/02/aug/1080.html

5. Gutman, Roy & Barry, John, "Beyond Baghdad: Expanding Target List: Washington looks at overhauling the Islamic and Arab world," *Newsweek* (August 11, 2002)
   http://www.unansweredquestions.net/timeline/2002/newsweek081102.html
6. Costello, Tom, "Japan's Economy at Risk of Collapse," *MSNBC News* (December 11, 2002)
   http://www.msnbc.com/news/845708.asp
7. Gluck, Caroline, "North Korea embraces the euro," *BBC News* (December 1, 2002)
   http://news.bbc.co.uk/1/hi/world/asia-pacific/2531833.stm
8. "What the World Thinks in 2002 -- How Global Publics View: Their Lives, Their Countries, The World, America," The Pew Research Center For The People & The Press (December 4, 2002)
   http://people-press.org/reports/display.php3?ReportID=165
9. "Euro continues to extend its global influence" (January 7, 2002)
   http://www.europartnership.com/news/02jan07.htm
10. Henderson, Hazel, "Beyond Bush's Unilateralism: Another Bi-Polar World or A New Era of Win-Win?" *InterPress Service* (June 2002)
    http://www.hazelhenderson.com/Bush's%20unilateralism.htm
11. Birms, Larry & Volberding, Alex, "U.S. is the Primary Loser in Failed Venezuelan Coup," *Newsday* (April 21, 2002)
    http://www.coha.org/COHA%20_in%20_the_news/Articles%202002/newsday_04_21_02_us__venezuela.htm
12. "USA intelligence agencies revealed in plot to oust Venezuela's President," (Dec 12, 2002)
    http://www.vheadline.com/0212/14248.asp (link now dead) -- see http://www.ratical.org/ratville/CAH/linkscopy/USintelVen.html
13. Liu, Henry C K, "US dollar hegemony has got to go," *Asia Times* (April 11, 2002)
    http://www.atimes.com/global-econ/DD11Dj01.html
14. "The Choice of Currency for the Denomination of the Oil Bill," Speech given by Javad Yarjani, Head of OPEC's Petroleum Market Analysis Dept, on The International Role of the Euro (Invited by the Spanish Minister of Economic Affairs during Spain's Presidency of the EU) (April 14, 2002, Oviedo, Spain)
    http://www.opec.org/NewsInfo/Speeches/sp2002/spAraqueSpainApr14.htm
15. Nayyer, Dr. Ali, "Iraq and Oil," *PakistanLink* (December 13, 2002)
    http://www.pakistanlink.com/nayyer/12132002.html
16. Pfeiffer, Dale Allen, "Much Ado about Nothing -- Whither the Caspian Riches? Over the Last 24 Months Hoped For Caspian Oil Bonanza Has Vanished With Each New Well Drilled -- Global Implications Are Frightening," *From The Wilderness* (December 5, 2002)
    http://www.fromthewilderness.com/free/ww3/120502_caspian.html
17. Ruppert, Michael, "The Unseen Conflict -- War Plans, Backroom Deals, Leverage and Strategy -- Securing What's Left of the Planet's Oil Is and Has Always Been the Bottom Line," *From The Wilderness* (October 18, 2002)
    http://www.fromthewilderness.com/free/ww3/101802_the_unseen.html
18. Jean Charles-Briscard & Guillaume Dasquie, *The Forbidden Truth: U.S.-Taliban Secret Oil Diplomacy, Saudi Arabia and the Failed Search for bin Laden*, Nation Books, 2002.
    Interview: Donahue With Jean-Charles Brisard: http://www.truthout.org/docs_02/08.16B.donahue.brisard.htm
    Paris Reporters Say Bush Threatened War Last Summer: http://www.villagevoice.com/issues/0201/ridgeway.php
    Reviews of the book: http://www.ratical.org/ratville/JFK/JohnJudge/911mar2002.html#0327a
19. Ruppert, Michael, *FTW* Interview: "Colin Campbell on Oil -- Perhaps the World's Foremost Expert on Oil and the Oil Business Confirms the Ever More Apparent Reality of the Post-9-11 World," *From The Wilderness* (October 23, 2002)
    http://www.fromthewilderness.com/free/ww3/102302_campbell.html
20. Golf, Stan, "The Infinite War and its Roots," *From The Wilderness* (August 27, 2002)
    http://www.fromthewilderness.com/free/ww3/082702_infinite_war.html
21. Vidal, Gore, *Dreaming War: Blood for Oil & the Cheney-Bush Junta,* Nation Books, 2002. His essay, "The Enemy Within" was first printed in the *UK Observer* (Oct 27, 2002)
    http://www.ratical.org/ratville/CAH/EnemyWithin.html
22. Ahmed, Nafeez, *The War on Freedom: How and Why America was Attacked, September 11, 2001*, Tree of Life Publications, 2002.
    Complete 400-page PDF copy of book: http://globalfreepress.com/books/warfre-book.pdf
    www.thewaronfreedom.com
    Yahoo! Groups: WarOnFreedom: http://groups.yahoo.com/group/WarOnFreedom/
    Book Review by Wanda Ballantine: http://www.ratical.org/ratville/CAH/WoFreview.html

Addendum: Notable International monetary movements
(late January 2003)

After completing my essay, I began to read about some interesting international monetary developments and the related opinions of analysts. These recent developments warrant inclusion as an addendum. The following two articles relate to the rapid devaluation of the dollar in late January relative to the euro. This occurred in the week immediately preceding President Bush's State of the Union address. Both of these articles suggest that Russia -- a traditional holder of dollar reserves -- may be linking 'political overtones' to their exchanges of dollars for euros. The following article may illustrate things to come if President Bush continues on his present unilateral position on Iraq.

> "The dollar remained on the ropes on Thursday, buffeted by some hawkish remarks from the US administration about the standoff with Iraq. It was also stung by a pointed signal from Russia's central bank that the appeal of dollar-denominated assets is waning.
>
> "Oleg Vyugin, first deputy chairman at the Russian central bank, said the bank plans to cut the share of US dollars in its foreign exchange reserves and increase the share of other currencies. . . .
>
> "Some analysts questioned whether there may be political overtones to Vyugin's remarks, that could be related to the widening rift between the US and some other potential allies about how to persuade Iraq to comply with UN weapons' inspectors requirements.
>
> "Although Russia's own foreign exchange reserves are fairly small by comparison with the world's biggest central banks, the question is, 'Will other central banks follow and what does this do to the ability of the US to finance its current account deficit?' said Marc Chandler, chief currency strategist with HSBC in New York.
>
> "That deficit is currently around 5% of gross domestic product and proving to be an increasingly heavy millstone around the dollar's neck." [23]

The next day (January 25th) some analysts reiterated that these monetary movements may be related not only to the current geo-political tensions, but may also indicate political motivations. Is this perhaps a 'warning shot over the bow' for the Bush administration regarding their position on Iraq?

> "All of a sudden, the dollar's supposedly slow and gradual decline isn't looking so slow, or gradual.
>
> "In fact the speed of the dollar's slide, against the euro in particular, has taken even the most seasoned analysts by surprise: a Dow Jones Newswires foreign exchange survey just ten days ago showed the major currency trading banks forecasting the euro climbing to $1.06 by the middle of February and not coming near $1.10 until the end of the year.
>
> "Instead, the euro has leaped to highs of around $1.0850 on Friday and has already gained 4% on the dollar this year, leaving strategists increasingly scrambling to update their forecasts. The Swiss franc keeps reaching fresh four-year highs, and the dollar is on the ropes against sterling and a host of other key rivals.
>
> "Perhaps a more important barometer of broader confidence in U.S. markets is the Treasurys market. With the dollar falling, gold spiking and stocks under pressure, Treasurys continue to retain their safe haven appeal.

"But there are warning signals here, too, that are beginning to get more attention. This week, the Russian central bank said it was lowering the U.S. asset portion of its foreign exchange reserves -- in other words selling Treasurys -- calling the dollar a low-yielding currency.

"Analysts believe some of the large Asian central banks -- that between them hold the lion's share of the world's dollar reserves -- are also considering rejigging their Treasury holdings. A U.S.-led war in Iraq could further accelerate that trend.

"Indeed, some political analysts believe that U.S. policy over Iraq may already be having a direct impact on holdings of U.S. assets, particularly with much of the rest of the world so opposed to war. 'It's hard for me to believe that the flow of capital cannot help but be affected by how the U.S. is perceived around the world,' said Larry Greenberg, an international economist at Ried Thunberg & Co. in Westport, Conn.

"'Today if you have the U.S. acting (in Iraq) against world opinion, there could be an even faster pullback out of dollar-denominated assets,' said Joseph Quinlan, global economist with Johns Hopkins University, in Washington. 'How we go to war influences the rate of decline of the dollar' he said." [24]

The day after this the UK *Observer*'s Will Hutton wrote a forceful article against Bush's unilaterism. This article further emphasizes the unfortunate economic imbalances of the U.S. economy, and suggests that the potential geo-political fallout of a unilaterist war in Iraq could create a devastating divestiture of U.S. dollar denominated assets.

"The US's economic position is far too vulnerable to allow it to go war without cast-iron multilateral support that could underpin it economically as well as diplomatically and militarily. The multi-lateralism Bush scorns is, in truth, an economic necessity. . . .

"On latest estimates, its net liabilities to the rest the world are more than $2.7 trillion, nearly 30 per cent of GDP, a scale of indebtedness associated with basket-case economies in Latin America.

"Its industrial base is so uncompetitive that it consistently imports more than it exports; its current-account deficit, the gap between all its current foreign earnings and foreign spending, is now a stunning 5 per cent of GDP, continuing a trend that has lasted for more than 25 years and which is the cause of all that foreign debt. As a national community, it has virtually ceased to save so that government and individuals alike live on credit.

To finance the current-account deficit, a reflection of the lack of saving, the US relies on foreigners supplying it with the foreign currency it can't earn itself. . . .

"BUT IF FOREIGNERS got windy about the prospects for share and property prices and stopped buying, or began to withdraw some of the trillions they have invested in the US economy, then the dollar would collapse. Already, it has fallen nearly 10 per cent against the euro over the last six weeks, but that could just be the beginning. Economists at the Federal Reserve have estimated that the dollar needs to fall by 30 per cent to bring the flow of imports and exports into balance, but in today's markets such a fall doesn't happen gradually. It happens precipitately.

"If America and Britain spurn a second UN Resolution and go to war with the active opposition of key members of the Security Council like France and Russia, be sure the flow of dollars into the US will slow down dramatically, and be sure there will be a stampede of foreigners trying to sell. Shares on Wall Street that Bush is so anxious to prop up are still massively overvalued. Against this background, there could be a devastating sell-off, with all the depressing knock-on consequences for American consumer confidence and business investment.

"What the markets were signaling last week was that this is sufficiently within the bounds of possibility that it was worth taking precautionary action, hence the selling. If the war was over in a few weeks, the risks would be containable, and there will be some shares well worth buying at today's prices. But if the war was prolonged or the subsequent peace unstable, then the pressure on the dollar and Wall Street could become

> very severe indeed, reinforcing the depressive influences on an economy where the underlying imbalances are so extraordinary. . . .
>
> "The US approach has been unilateralist here as everywhere else: it does what it likes as it likes, a policy that is now showing its limits. Bush needs badly to change course, which Tony Blair should be urging on him. The UN process needs to be respected and reinforced, not least to reassure the markets, and better systems of economic governance need to be put in place. The US's military capacity may allow unilateralism; its soft economic underbelly, we are discovering, does not." [25]

These articles indicate that the world community is reducing its reliance on dollars in their central banks, and thus quite possibly sending a message about their opposition to the U.S.'s position on Iraq.

European Commentary on the Essay: 'The Real Reasons for the Upcoming War With Iraq'

In January 2003, Mr. Coílín Nunan reviewed a draft of my essay on an Internet forum. He subsequently published an exceptional summary of this research on an Irish website (www.feasta.org). Hopefully my essay along with his article may create additional public awareness, and thus facilitate a real debate regarding the Iraq issues. Below are excerpts from his article "Oil, Currency, and the War on Iraq":

> "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.
>
> "If on the other hand OPEC were to decide to accept euros only for its oil (assuming for a moment it were allowed to make this decision), then American economic dominance would be over. Not only would Europe not need as many dollars anymore, but Japan which imports over 80% of its oil from the Middle East would think it wise to convert a large portion of its dollar assets to euro assets (Japan is the major subsidizer of the US because it holds so many dollar investments). The US on the other hand, being the world's largest oil importer would have, to run a trade surplus to acquire euros. The conversion from trade deficit to trade surplus would have to be achieved at a time when its property and stock market prices were collapsing and its

domestic supplies of oil and gas were contracting. It would be a very painful conversion.

> "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. . . .
>
> "All of this is bad news for the US economy and the dollar. The fear for Washington will be that not only will the future price of oil not be right, but the currency might not be right either. Which perhaps helps explain why the US is increasingly turning to its second major tool for dominating world affairs: military force." [26]

It appears that Mr. Nunan concurs with my hypothesis with respect to the euro and this upcoming war. Tragically, President Bush and his administration do not appear willing to initiate the arduous structural changes that our economy must undertake if we are to adapt and compete with the euro. Instead, they intend to enforce U.S. dollar hegemony for oil transactions via the application of superior U.S. military force. However the Bush administration's dangerous strategy will most likely result in failure, as monetary maneuvers against the U.S. dollar by the international community indicate they will not tolerate aggressive U.S. imperialism over Iraq's oil and its choice of oil currency.

References: Addendum Section

23. *Associated Press*, "US Dollar on Shaky Ground," *nzoom.com* (January 24, 2003)
    http://onebusiness.nzoom.com/cda/printable/1,1856,163754,00.html
24. McCarthy, Grainne "Dollar's Decline Starting To Accelerate, Rattling Nerves,"
    http://sg.biz.yahoo.com/030124/15/36tiv.html
25. Hutton, Will, "Why Bush is sunk without Europe - Even while George Bush growls out his bellicose message, his country has never been in such an enfeebled state," *The Observer*, (January 26, 2003)
    http://www.observer.co.uk/Print/0,3858,4591686,00.html
26. Nunan, Coílín, "Oil, Currency, and the War on Iraq," (January 2003)
    http://www.feasta.org/documents/papers/oil1.htm
    http://www.feasta.org/documents/papers/oil1.pdf

Copyright © 2003 W. Clark
Reprinted for Fair Use Only.