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Currency Warfare: What are the Real Targets of the E.U. Oil Embargo against Iran?

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In-depth Report: IRAN: THE NEXT WAR?

Against whom is the European Union's so-called "oil embargo on Iran" really aimed at?

This is an important geo-strategic question. Aside from rejecting the new E.U. measures against Iran as counter-productive, Tehran has warned the member states of the European Union that the E.U. oil embargo against Iran will hurt them and their economies far more than Iran.

Tehran has thus warned the leaders of the E.U. countries that the new sanctions are foolish and against their national and bloc interests. But is this correct? At the end of the day, who will benefit from the chain of events that are being set into motion?

Oil Embargos against Iran are Not New

In 1951, the Iranian government of Prime Minister Mohammed Mossadegh with the support of the Iranian Parliament nationalized the Iranian oil industry. As a result of Dr. Mossadegh's nationalization program, the British militarily blockaded the territorial waters and national ports of Iran with the British Royal Navy and prevented Iran from exporting its oil. They also militarily prevented Iranian trade. London also froze Iranian assets and started a campaign to isolate Iran with sanctions. The government of Dr. Mossadegh was democratic and could not be vilified easily domestically by the British, so they began to portray Mossadegh as a pawn of the Soviet Union who would turn Iran into a communist country together with his Marxist political allies.

The illegal British naval embargo was followed by regime change in Tehran via a 1953 Anglo-American engineered coup d'état. The 1953 coup transformed the Shah of Iran from a constitutional figure head to an absolute monarch and dictator, like the monarchs of Jordan, Saudi Arabia, Bahrain, and Qatar. Iran was transformed overnight from a democratic constitutional monarchy into a dictatorship.

Today, a militarily imposed oil embargo against Iran is not possible like it was in the early 1950s. Instead London and Washington use the language of righteousness and hide behind false pretexts about Iranian nuclear weapons. Like in the 1950s, the oil embargo against Iran is tied to regime change. Yet, there are also broader objectives that go beyond the boundaries of Iran tied to Washington's project to impose an oil embargo against the Iranians.

The European Union and Iranian Oil Sales

Iran's largest customer for oil is the People's Republic of China. According to the Paris-based International Energy Agency (IEA), which was created after the 1973 Arab Oil Embargo as the strategic wing of the Western Bloc's Organization of Economic Co-operation and Development (OECD), Iran exports 543,000 oil barrels per day to China. Iran's other large customers are India, Turkey, Japan, and South Korea. India imports 341,000 barrels per day from Iran, Turkey imports 370,000 barrels per day from Iran, Japan imports 251,000 barrels per day from Iran, and South Korea imports 239,000 barrels per day from Iran.

According to the Iranian Ministry of Petroleum the European Union only accounts for 18% of Iranian oil exports, which means less than one-fifth of Iranian oil sales. Only "collectively" is the European Union the second largest customer of Iran. All the E.U. countries together import 510,000 barrels per day from Iran. This collective rank that all Iranian oil importing E.U. countries have together is being highlighted by those that want to emphasize the effectiveness of the E.U. oil embargo against Iran.

Iran can replace oil sales to the European Union via new buyers or by increasing sales to existing customers like China and India. An Iranian agreement to work with China for stockpiling Chinese strategic reserves would fill a large portion of the vacuum left by the European Union. Thus, the oil embargo against Iran will have minimal direct effects on Iran. Rather, it is most likely that any of the effects that the Iranian economy feels will be tied to the global ramifications of the oil embargo against Iran.

Iran and Global Currency Warfare

According to the International Monetary Fund (IMF), both the U.S. dollar and the euro together constitute 84.4% of the world's currency exchange reserves (end of 2011 date). The U.S. dollar alone, was the largest share of the world's currency exchange reserves in 2011, namely 61.7%.

Energy sales are an important part of this equation, because the American dollar is tied to the oil trade.

Thus, oil trade, through what is called the petro-dollar, is helping sustain the American dollar's international standing. Countries around the world have been virtually forced to use the U.S. dollar to maintain their energy and trade needs and transactions.

To highlight the importance of the international oil trade to the U.S., all the Gulf Cooperation Council (GCC) members – Saudi Arabia, Bahrain, Qatar, Kuwait, Oman, and the United Arab Emirates – have their national currencies pegged to the U.S. dollar and thereby sustain the petro-dollar by trading oil in American dollars. Moreover, the currencies of Lebanon, Jordan, Eritrea, Djibouti, Belize, and several tropical islands in the Caribbean Sea are also all pegged to the U.S. dollar. Aside from the overseas territories of the United States, El Salvador, Ecuador, and Panama also all officially use the U.S. dollar as their national currencies.

The euro on the other hand is both a rival of the U.S. dollar as well as an allied currency. Both currencies work in tandem against other currencies in many cases and seem to be controlled by increasingly merging centres of financial power.

Aside from the seventeen European Union members using the euro as their currency, the Principality of Monaco, San Marino, and Vatican City have issuing rights and both Montenegro and the Albanian-majority Serbian province of Kosovo also use the euro as their national currencies. Outside of the euro area (Eurozone), the currencies of Bosnia, Bulgaria, Denmark, Latvia, and Lithuania in Europe; the currencies of Cape Verde, Comoros, Morocco, the Democratic Republic of São Tomé and Príncipe, and the two CFA zones in Africa; and the currencies of several Western European overseas dependencies, such as Greenland, are all pegged to the euro.

Several monetary zones are directly tied to the euro. In Oceania, the Comptoirs Français du Pacifique (CFP) franc, simply called the Pacific franc (*franc pacifique*), used in a monetary union of the French dependencies of French Polynesia, New Caledonia, and the Territory of the Wallis and Futuna Islands is pegged to the euro. As mentioned earlier, both the CFA zones in Africa are also pegged to the euro. Thus, both the Financial Community of Africa (*Communauté financière d'Afrique*, CFA) franc or West African CFA franc in West Africa – used by Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo – and the Financial Cooperation in Central Africa (*Coopération financière en Afrique central*, CFA) franc or Central African CFA franc – used by Cameroon, the Central African Republic, Chad, the Republic of the Congo (Congo-Brazzaville), Equatorial Guinea, and Gabon – have their fates tied to the monetary value of the euro.

Iran is not looking for military confrontation in the rising hostilities with the United States and European Union. Despite the warped narrative being presented, Tehran has said that it will only close the Strait of Hormuz as a last resort. The Iranians have also said that they will not let U.S. or hostile ships go through Iranian territorial water, which is their legal right, and that hostile ships could navigate through Oman's territorial waters in the Strait of Hormuz instead. As a side note, among other things, the problem for the U.S. and Iran's other adversaries is that the waters on the Omani side of the Strait of Hormuz are too shallow.

Instead of military confrontation, Tehran is fighting back economically in several ways. The first step, which started before 2012, was Iranian international oil sales and trade were diversified in regards to their currency transactions. This is part of a calculated move by Iran to move away from using the American dollar just like Saddam Hussein of Iraq did in 2000 as a means to fight back against the sanctions imposed on Iraq. In this context, Iran has created an international energy exchange or bourse competing with the New York Mercantile Exchange (NYMEX) and London's International Petroleum Exchange (IPE), which both operate using the American dollar for transactions. This energy exchange, called the Kish Oil Bourse, was officially opened in August 2011 on Kish Island in the Persian Gulf. Its first transactions were made using the euro and the Emirati dirhem.

In context of euro and U.S. dollar rivalries, the Iranians originally wanted to turn to the euro and a petro-euro system with the hope that the competition between the American dollar and the euro would make the European Union an ally of Iran and de-link the E.U. from the United States. As political tensions have mounted with the E.U., the petro-euro has become less attractive for Tehran. Iran has realized that the European Union is submissive to U.S. interests under corrupt leaders. Thus, to a lesser extent, Iran has also tried to move away from the euro.

Moreover, Iran has broadened its move away from the use of the U.S. dollar and the euro as policy in bilateral trade relations. Iran and India are talking about gold payments for Iranian oil. Iranian and Russian trade is conducted in Iranian rials and Russian roubles, while Iranian trade with China and other Asian countries is conducted using the Chinese renminbi, Iranian rial, Japanese yen, and other non-dollar and non-euro currencies.

While the euro could have been a big winner from a petro-euro system, the actions of the European Union have worked against this. The E.U. oil embargo against Iran is merely hammering the nails in the coffin. Globally, the emerging matrix of Eurasian and international trade and transaction outside of the umbrellas of the American dollar and the euro is weakening both currencies. The Iranian Parliament is now passing legislation to cut oil exports to the members of the European Union that will be part of the sanctions regime until they rescind the Iranian oil sanctions. The Iranian move will be a blow to the euro, especially since the European Union will not have time to prepare for the Iranian energy cuts.

There are several possibilities that could emerge. One of them is that this could be part of what Washington wants and it could be playing into its hands against the European Union. Another is that the U.S. and specific E.U. members are working together against strategic economic rivals and other markets.

Who Benefits? The Economic Targets are beyond Iran…

The end of Iranian oil exports to the European Union and the decline of the euro will directly benefit the United States and the U.S. dollar. What the European Union is doing is merely weakening itself and giving the U.S. dollar the upper hand in its currency rivalry against the euro. Moreover, should the euro collapse, the American dollar will quickly fill much of the void. Despite the fact that Russia will benefit from higher oil prices and greater leverage over E.U. energy security as a supplier, the Kremlin has also warned the European Union that it is working against its own interests and subordinating itself to Washington.

Many important questions are at play about the economic consequences of increased oil prices.

Will the European Union be able to weather the economic storm or a currency collapse?

What the E.U. oil embargo against Iran will do is destabilize the euro and snowball globally hurting non-E.U. economies. In this regard, Tehran has warned that the U.S. aims to hurt rival economies through the adoption of E.U. oil sanctions against Iran. Within this line of thinking, this is the reason why the U.S. is trying to force China, India, South Korea, and Japan in Asia to reduce or cut Iranian oil imports.

Within the European Union, it will be the most fragile and struggling economies, such as Greece and Spain, which will be hurt by the E.U. oil embargo against Iran.

The oil refineries in the European Union countries that import Iranian oil will have to find new sellers as sources and will also be forced to adjust their operations. Piero De Simone, one of the leaders of Italy's Unione Petrolifera, has warned that approximately seventy oil refineries in the E.U. could be shutdown and that Asian countries could start selling refined Iranian oil to the European Union at the expense of the local refineries and the local petroleum industries.

Despite the political claims supporting an oil embargo against Iran, neither will Saudi Arabia be able to fill the void of Iranian oil exports to the European Union or other markets. A shortfall in oil supplies and the production changes could have spiralling effects in the European Union and on the costs of industrial production, transportation, and market prices. The prediction is that the E.U. will effectively be deepening the crisis in the euro area or

Eurozone.

Moreover, the rise in everyday prices, ranging from food to transportation, will not be limited to the European Union, but will have global ramifications. As prices rise on a global scale, the economies in Latin American, Caribbean, African, Middle Eastern, Asian, and Pacific countries will face new hardship, which the financial sector in the U.S. and several of its partners – including members of the European Union – could capitalize on by taking over certain sectors and markets. The IMF and World Bank, as the Bretton Woods proxies of Wall Street, could get into the mix and impose more privatization programs benefiting the financial sectors of the U.S. and its main partners. Furthermore, how Iran decides to sell the 18% of oil it will stop selling to E.U. members will also be a mediating factor.

The Ghosts of the 1973 Arab Oil Embargo: Libya and the International Energy Agency

While countries in Africa or the Pacific have no strategic oil reserves and will be at the mercy of global price increases, the U.S. and the European Union have worked and tried to strategically insulate themselves from such scenarios. This is where the Paris-based International Energy Agency (IEA) comes into the picture. Libyan oil reserves are also a factor to the hostilities and petro-politics involving Iran.

The IEA was created after the 1973 Arab Oil Embargo. As mentioned earlier it is a “strategic wing of the Western Bloc’s Organization of Economic Co-operation and Development (OECD).” The OECD is a club of countries that includes the U.S., Britain, France, Germany, Spain, Italy, Belgium, Denmark, Japan, Canada, South Korea, Turkey, Australia, Israel, and New Zealand. It is essentially based on the contours of the Western Bloc, which is comprised of America’s allies and satellites. Aside from Israel, Chile, Estonia, Iceland, Slovenia, and Mexico all the members of the OECD are members of the IEA.

Since its creation in 1974, one of the responsibilities of the IEA has been to stock strategic oil reserves for the OECD countries. During the NATO war against Libya the IEA actually opened its strategic oil reserves to compensate for the void left by a lack of Libyan oil exports. The only other two times this happened were in 1991, when Washington led a military coalition in its first war against Iraq, and in 2005, when Hurricane Katrina devastated the United States.

The war in Libya had many purposes:

(1) preventing African unity;

(2) driving China out of Africa;

(3) strategically controlling important energy reserves; and

(4) guarding oil supplies in the scenario of any American-led conflicts against Syria and Iran.

What the NATO war in Libya has done is secure oil output from Libya, because there was a chance that the Libyan Arab Jamahiriya under Colonial Muammar Qaddafi could have suspended oil sales to the European Union in support of Syria or Iran in possible conflicts with the U.S., NATO, and Israel. It is also interesting to note that one of the Libyan figures that helped enable the war against Libya in the United Nations was Sliman Bouchuiguir, the head of the Libyan League for Human Rights (LLHR) and the current Libyan ambassador to Switzerland, who worked on formulating a strategy against allowing oil from being used as a strategic weapon to insure that the 1973 oil crisis never repeat itself for the U.S. and its allies.

Aside from Iran, the Syrians have also been a source of oil imports for the European Union. Like Iran, the E.U. has also cut their bloc off from Syrian oil via a sanctions regime engineered by the U.S. government. With Iranian and Syrian oil cut off from the E.U., the strategic value of Libyan oil rises. In this regard, the reports about the deployment of thousands of U.S. troops to Libyan oil fields can also be analyzed as being coordinated or tied to the growing U.S. and E.U. hostilities with Syria and Iran. Rerouting Libyan oil shipments to the E.U. that were intended for China can also be part of such a strategy.

The Psychological War

In reality, the sanctions regime engineered by the U.S. government against Iran has gone as far as it can go. All the speeches about Iranian isolation are bravado and far from the reality of current international relations and trade. Brazil, Russia, China, India, Iraq, Kazakhstan, Venezuela, and various countries in the post-Soviet space, Asia, Africa, and Latin America have all refused to join the sanctions against the Iranian economy.

The E.U. oil embargo, coupled with the broader sanctions against Iran, has broad psychological implications. Iran and its ally Syria both face a multi-dimensional war that has economic, covert, diplomatic, media, and psychological scopes.

The psychological war, which involves the mainstream media as a tool of foreign policy and war, constitutes an efficient propaganda instrument for the U.S. due to its lower costs. Yet, the psychological war can be fought on both sides.

Much of the power of the U.S. is psychological and tied to fear. Like the geography of the Persian Gulf, time is on Iran’s side and working against the United States.

If Iran continues on its present course and is undeterred by sanctions, this will help break a critical psychological threshold, which around the world tends to discourage countries from confronting and opposing the United States.

Should many countries continue to refuse to bow down to the Obama Administration pertaining to the impostion of sanctions against Iran, this will also be a blow to the prestige and power of the U.S., which would also have economic and financial implications.

Moreover, at the end of the day, the E.U. oil embargo will hurt the E.U. instead of Iran. In the long-term it could also hurt the United States.

Structurally, the effects of the E.U. oil embargo will further entrench the E.U. in the orbit of Washington, but these effects will catalyze growing social opposition to Washington, which will eventually manifest in the political and economic arenas.

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An award-winning author and geopolitical analyst, Mahdi Darius Nazemroaya is the author of The Globalization of NATO (Clarity Press) and a forthcoming book The War on Libya and the Re-Colonization of Africa. He has also contributed to several other books ranging from cultural critique to international relations. He is a Sociologist and Research Associate at the Centre for Research on Globalization (CRG), a contributor at the Strategic Culture Foundation (SCF), Moscow, and a member of the Scientific Committee of Geopolitica, Italy.