The EU, Russia, China Plan to Avert Iran Oil Sanctions: New Banking Architecture, Bypass US Dollar Trade

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It may well be that the unilateral wrecking ball politics of the Trump Administration are bringing about a result just opposite from that intended. Washington's decision to abandon the Iran nuclear agreement and impose severe sanctions on companies trading Iran oil as of 4 November, is creating new channels of cooperation between the EU, Russia, China and Iran and potentially others. The recent declaration by Brussels officials of creation of an unspecified Special Purpose Vehicle (SPV) to legally avoid US dollar oil trade and thereby US sanctions, might potentially spell the beginning of the end of the Dollar System domination of the world economy.

According to reports from the last bilateral German-Iran talks in Teheran on October 17, the mechanisms of a so-called Special Purpose Vehicle that would allow Iran to continue to earn from its oil exports, will begin implementation in the next days. At end of September EU Foreign Policy chief **Federica Mogherini** confirmed plans to create such an independent trade channel, noting,

> "no sovereign country or organization can accept that somebody else decides with whom you are allowed to do trade with."

The SPV plan is reportedly modelled on the Soviet barter system used during the cold war to avert US trade sanctions, where Iran oil would be in some manner exchanged for goods without money. The SPV agreement would reportedly involve the European Union, Iran, China and Russia.

According to various reports out of the EU the new SPV plan involves a sophisticated barter system that can avoid US Treasury sanctions. As an example, Iran could ship crude oil to a French firm, accrue credit via the SPV, much like a bank. That could then be used to pay an Italian manufacturer for goods shipped the other way, without any funds traversing through Iranian hands or the normal banking system. A multinational European state-backed financial intermediary would be set up to handle deals with companies interested in Iran transactions and with Iranian counter-parties. Any transactions would not be transparent to the US, and would involve euros and sterling rather than dollars.

It's an extraordinary response to what Washington has called a policy of all-out financial war against Iran, that includes threats to sanction European central banks and the Brussels-based SWIFT interbank payments network if they maintain ties to Iran after November 4. In the post-1945 relations between Western Europe and Washington such aggressive measures have not been seen before.It's forcing some major rethinking from leading EU policy circles.

New Banking Architecture

The background to the mysterious initiative was presented in June in a report titled, Europe, Iran and Economic Sovereignty: New Banking Architecture in Response to US Sanctions. The report was authored by Iranian economist **Esfandyar Batmanghelidj** and **Axel Hellman**, a Policy Fellow at the European Leadership Network (ELN), a London-based policy think tank.

The report proposes its new architecture should have two key elements. First it will be based on "gateway banks" designated to act as intermediaries between Iranian and EU commercial banks tied to the Special Purpose Vehicle. The second element is that it would be overseen by an EU-Office of Foreign Asset Controls or EU-OFAC, modeled on the same at the US Treasury, but used for facilitating legal EU-Iran trade, not for blocking it. Their proposed EU-OFAC among other functions would undertake creating certification mechanisms for due diligence on the companies doing such trade and "strengthen EU legal protections for entities engaged in Iran trade and investment."

The SPV reportedly is based on this plan using designated Gateway Banks, banks in the EU unaffected by Washington "secondary sanctions," as they do not do business in the US and focus on business with Iran. They might include select state-owned German Landesbanks, certain Swiss private banks such as the Europäisch-Iranische Handelsbank (EIH), a European bank established specifically to engage in trade finance with Iran. In addition, select Iran banks with offices in the EU could be brought in.

Whatever the final result, it is clear that the bellicose actions of the Trump Administration against trade with Iran is forcing major countries into cooperation that ultimately could spell the demise of the dollar hegemony that has allowed a debt-bloated US Government to finance a de facto global tyranny at the expense of others.

EU-Russia-China…

During the recent UN General Assembly in New York, Federica Mogherini said the SPV was designed to facilitate payments related to Iran's exports – including oil –so long as the firms involved were carrying out legitimate business under EU law. China and Russia are also involved in the SPV. Potentially Turkey, India and other countries could later join.

Immediately, as expected, Washington has reacted. At the UN US Secretary of State and former CIA head **Mike Pompeo** declared to an Iran opposition meeting that he was "disturbed and indeed deeply disappointed" by the EU plan. Notably he said

> "This is one of the most counterproductive measures imaginable for regional and global peace and security."

Presumably the Washington plan for economic war against Iranis designed to foster regional and global peace and security?

Non-US SWIFT?

One of the most brutal weapons in the US Treasury financial warfare battery is the ability to force the Brussels-based SWIFT private interbank clearing system to cut Iran off from using it. That was done with devastating effect in 2012 when Washington pressured the EU to get SWIFT compliance, a grave precedent that sent alarm bells off around the world.

The fact that the US dollar remains the overwhelming dominant currency for international trade and financial transactions gives Washington extraordinary power over banks and companies in the rest of the world. That's the financial equivalent of a neutron bomb. That might be about to change, though it's by no means a done deal yet.

In 2015 China unveiled its CIPS or China International Payments System. CIPS was originally viewed as a future China-based alternative to SWIFT. It would offer clearing and settlement services for its participants in cross-border RMB payments and trade. Unfortunately, a Chinese stock market crisis forced Beijing to downscale their plans, though a skeleton of infrastructure is there.

In another area, since late 2017 Russia and China have discussed possible linking their bilateral payments systems bypassing the dollar. China's Unionpay system and Russia's domestic payment system, known as Karta Mir, would be linked directly.

More recently leading EU policy circles have echoed such ideas, unprecedented in the post-1944 era. In August, referring to the unilateral US actions to block oil and other trade with Iran, German **Foreign Minister Heiko Maas** told Handelsblatt, a leading German business daily,

> "Europe should not allow the U.S. to act over our heads and at our expense. For that reason, it's essential that we strengthen European autonomy by establishing payment channels that are independent of the US, creating a European Monetary Fund and building up an independent SWIFT system."

A Crack in the Dollar Edifice

How far the EU is willing to defy Washington on the issue of trade with Iran is not yet clear. Most probably Washington via NSA and other means can uncover the trades of the EU-Iran-Russia-China SPV.

In addition to the recent statements from the German Foreign Minister, France is discussing expanding the Iran SPV to create a means of insulating the EU economies from illegal extraterritorial sanctions like the secondary sanctions that punish EU companies doing business in Iran by preventing them from using the dollar or doing business in the USA. French Foreign Ministry spokeswoman, **Agnes Von der Muhll,** stated that in addition to enabling companies to continue to trade with Iran, that the SPV would, "create an economic sovereignty tool for the European Union beyond this one case. It is therefore a long-term plan that will protect European companies in the future from the effect of illegal extraterritorial sanctions."

If this will be the case with the emerging EU Special Purpose Vehicle, it will create a gaping crack in the dollar edifice. Referring to the SPV and its implications, **Jarrett Blanc,** former Obama State Department official involved in negotiating the Iran nuclear agreement noted that,

> "The payment mechanism move opens the door to a longer-term degradation of US sanctions power."

At present the EU has displayed effusive rhetoric and loud grumbling against unilateral US economic warfare and extraterritorial imposition of sanctions such as those against Russia. Their resolve to potently move to create a genuine alternative to date has been absent. So too is the case so far in other respects for China and Russia. Will the incredibly crass US sanctions war on Iran finally spell the beginning of the end of the dollar domination of the world economy it has held since Bretton Woods in 1945?

My own feeling is that unless the SPV in whatever form utilizes the remarkable technological advantages of certain of the blockchain or ledger technologies similar to the US-based XRP or Ripple, that would enable routing payments across borders in a secure and almost instantaneous way globally, it won't amount to much. It's not that European IT programmers lack the expertise to develop such, and certainly not the Russians. After all one of the leading blockchain companies was created by a Russian-born Canadian named Vitalik Buterin. The Russian Duma is working on new legislation regarding digital currencies, though the Bank of Russia still seems staunchly opposed. The Peoples' Bank of China is rapidly developing and testing a national cryptocurrency, ChinaCoin. Blockchain technologies are widely misunderstood, even in government circles such as the Russian Central Bank that ought to see it is far more than a new "South Sea bubble." The ability of a state-supervised payments system to move value across borders, totally encrypted and secure is the only plausible short-term answer to unilateral sanctions and financial wars until a more civilized order among nations is possible.

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