

Fragile Dollar Hegemony: Iran's Oil Bourse could Topple the Dollar

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Two weeks ago George Bush was sent on a mission to the Middle East to deliver a horse's head. We all remember the disturbing scene in Francis Ford Coppola's "The Godfather" where Lucca Brassi goes to Hollywood to convince a recalcitrant movie producer to use Don Corleone's nephew in his next film. The "Big shot" producer is finally persuaded to hire the young actor after he wakes up in bed next to the severed head of his prize thoroughbred. I expect that Bush made a similar "offer they could not refuse" to the various leaders of the Gulf States when he met with them earlier this month.

The media tried to portray Bush's trip to the Middle East as a "peace mission", but that just a smokescreen. In fact, three days after Bush left Jerusalem, Israel stepped-up its military operations in the occupied territories and resumed its merciless blockade of food, water, medicine and energy to the 1.5 million people of Gaza. Clearly, Bush had green-lighted the operations or Israel's aggression would have been seen as a slap in the face of the President of the United States.

So, what was the real purpose of Bush's trip? After all, he has no interest in peace or in honoring his commitment to resolve the Israeli-Palestinian crisis. So, why would he choose to visit the Middle East just as his second term as president is winding down and there is no chance of success?

Sometimes personal visits are important; especially when the nature of the information is so sensitive that the message has to be made face to face. In this case, Bush went to the trouble of traveling half-way around the world to tell the Saudis and their friends in the Gulf States that they were going to continue linking their oil to the dollar or they were going to "sleep with the fishes". For the last two months, various sheiks and finance ministers have been moaning and groaning about the falling dollar—threatening to break from the so-called "dollar-peg" and covert to a basket of currencies. Bush's trip appears to have rekindled the spirit of brotherly cooperation. The grumbling has ceased and everyone is back "on board". The regional leaders now seem considerably less bothered by the fact that inflation is gobbling up their economies and driving labor, food, energy and housing through the roof. Reuters summed it up like this:

"After a flurry of public disagreements over currency reform last year, Gulf central bankers are trying to close ranks, talking up the pegs as a source of stability and playing down the dollar's weakness as a temporary phenomenon."

Looks like Bush smoothed things over.

In the last two weeks, the Gulf leaders have watched nervously while the Federal Reserve has slashed rates by a whopping 125 basis points. The cuts are steadily eroding the \$1 trillion of capital the sheiks have invested in US Treasuries and securities.

“Inflation is at 16-year highs in Saudi Arabia and Oman, a 19-year peak in the United Arab Emirates. Gulf policymakers are intervening directly in loans, property and commodity markets to offset rate cut.” (Reuters)

Property values have skyrocketed. Commercial property in the UAE has doubled since the beginning of 2007. The inflation-bomb has forced other Gulf states to provide food subsidies for their people and a “70% wage rise for some Emirati federal government employees.”

Disgruntled migrant workers rioted in Dubai recently, demanding to be fairly compensated for the sharp increase in prices. The Saudi riyal has climbed to a 21-year peak.

Currency traders expect another 8% rise in the dirham and riyal by April and they are predicting that interest rates will compel Central bankers throughout Gulf states to covert to either the euro or a basket of regional currencies. So far, however, the loyal Saudi princes have continued their support for the dollar.

Defending Dollar Hegemony

So, how important is it that oil continue to be denominated in dollars? Would the United States wage war to defend the dollar’s status as the world’s “reserve currency”?

The answer to this question could come as early as this week, since the long-awaited Iranian Oil Bourse is scheduled to open between February 1-11. According to Iran’s Finance Minister Davoud Danesh-Jafari, “All preparations have been made to launch the bourse; it will open during the 10-day Dawn (the ceremonies marking the victory of the 1979 Islamic Revolution in Iran) The bourse is considered a direct threat to the continued global dominance of the dollar because it will require that Iranian “oil, petrochemicals and gas” be traded in “non-dollar currencies”. (Press TV, Iran)

The petrodollar system is no different than the gold standard. Today’s currency is simply underwritten by the one vital source of energy upon which every industrialized society depends—oil. If the dollar is de-linked from oil; it will no longer serve as the de-facto international currency and the US will be forced to reduce its massive trade deficits, rebuild its manufacturing capacity, and become an export nation again. The only alternative is to create a network of client regimes who repress the collective aspirations of their people so they can faithfully follow directives from Washington.

As to whether the Bush administration would start a war to defend dollar hegemony; that’s a question that should be asked of Saddam Hussein. Iraq was invaded just six months after Saddam converted to the euro. The message is clear; the Empire will defend its currency.

Similarly, Iran switched from the dollar in 2007 and has insisted that Japan pay its enormous energy bills in yen. The “conversion” has infuriated the Bush administration and made Iran the target of US belligerence ever since. In fact, even though 16 US Intelligence agencies issued a report (NIE) saying that Iran was not developing nuclear weapons; and even though the UN’s nuclear watchdog, the IAEA, found that Iran was in compliance with its obligations

under the Nuclear Nonproliferation (NPT) Treaty; a preemptive US-led attack on Iran still appears likely.

And, although the western media now minimizes the prospects of another war in the region; Israel is taking the precautions that suggest that the idea is not so far-fetched. "Israel calls for shelter rooms to be set up in a bid to prepare the public for yet another war, this time, one of raining missiles." (Press TV, Iran)

"The next war will see a massive use of ballistic weapons against the whole of Israeli territory," claimed retired general Udi Shani. (Global Research <http://globalresearch.ca/index.php?context=va&aid=7982>)

Russia also sees a growing probability of hostilities breaking out in the Gulf and has responded by sending a naval task force into the Mediterranean Sea and the North Atlantic.

According to an article on the Global Research site:

"The flagship of Russia's Black Sea Fleet, the Moskva guided missile cruiser, joined up with Russian naval warships in the Mediterranean on January 18 to participate in the current maneuvers....The current operation is the first large-scale Russian Navy exercise in the Atlantic in 15 years. All combat ships and aircraft involved carry full combat ammunition loads.

(Global Research, <http://globalresearch.ca/index.php?context=va&aid=7983>)

France is also planning military maneuvers in the Straits of Hormuz. Operation "Gulf Shield 01," will take place off the coast of Iran and will employ thousands of personnel in combined arms operations that will include simulated attacks on oil platforms."

Exercises are scheduled to take place from Feb. 23 to March 5, and will involve 1,500 French, 2,500 Emirati, and 1,300 Qatari personnel operating on land, at sea and in the air, the ministry said..."Around a half-dozen warships, 40 aircraft and dozens of armored vehicles will be in the war games", Fusalba said.

<http://www.defensenews.com/story.php?F=3346953&C=mideast>

Additionally, within the last week, three of the main underwater cables which carry Internet traffic have been cut off in the Persian Gulf and three-quarters of the international communications between Europe and the Middle East have been lost. Large parts of the Middle East have been plunged into darkness.

Is this merely a coincidence or is something else going on just below the surface?

Ian Brockwell, of the American Chronicle said:

"On the assumption that the cables cut were no accident, we must ask ourselves who would do such a thing and why. Clearly Iran, who were most affected, would gain nothing from such an action and are perhaps the target of those responsible?...Maybe this is a prelude to an attack, or perhaps a test run for a future one?"

Communication has always been an important factor in military action, and cutting these cables might affect Iran's ability to defend itself." (American

Chronicle, <http://www.americanchronicle.com/articles/51085>)

Despite the lack of media coverage, tensions are mounting in the Gulf and the probability of a US-led attack on Iran is still quite high. Bush is convinced that if he doesn't confront Iran, then no one will. He also believes that if he doesn't militarily defend the dollar, then America's days as "the world's only superpower" will soon be over. So, the real question is whether Bush will realize that America is already hopelessly bogged-down in two "unwinnable" conflicts or if he will "go with his gut" once again and lead us into a ruinous region-wide conflagration.

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