The Biggest Threat to Dollar Dominance

By Irina Slav
Global Research, November 13, 2018
OilPrice.com 12 November 2018
Region: USA
Theme: Global Economy, Oil and Energy

Russian oil exporters are pressuring Western commodity traders to pay for Russian crude in euros and not dollars as Washington prepares more sanctions for the 2014 annexation of Crimea by Moscow, Reuters reported last week, citing as many as seven industry sources.

While it may have come as a surprise to the traders, who, Reuters said, were not too happy about it, the Russian companies' move was to be expected as the Trump administration pursues a foreign policy where sanctions feature prominently. This approach, however, could undermine the dominance of the U.S. dollar as the global oil trade currency.

Early indications of this undermining became evident this spring, when Russia and Iran launched an oil-for-goods exchange program seeking to eliminate bilateral payments in U.S. dollars and plan to keep it going for five years. The sanction buddies discussed this sort of agreement earlier, back in 2014, when Iran was still under Western sanctions. Even after the notorious nuclear deal was reached, the two countries decided to go ahead with their barter deal, and the preliminary agreement was reached last year. According to it, Russia would receive 100,000 bpd of Iranian crude in exchange for US$45 billion worth of Russian goods.

In March, Iran banned purchase orders denominated in U.S. dollars and said that any merchant using dollars in their orders will not be allowed to conduct the import trade. A month later, Tehran announced that it will publish all its official financial reports in euros instead of dollars in a bid to encourage a switch to euros from dollars among state agencies and businesses.

Now, Russia's biggest oil producers are renegotiating oil delivery contracts with commodity traders, and three of them, Rosneft, Gazprom Neft and Surgutneftegaz, have raised traders' hackles by insisting they, the traders, commit to paying penalties beginning next year if U.S. sanctions disrupt sales and as a result the buyers fail to make payments. Also, there are discussions about using euros and other currencies instead of dollars to ensure payments are not disrupted.

It would make perfect sense for the seller of any commodity to ensure that they receive payment for their commodity. In an environment of sanctions, looking for ways around them is the only logical behavior. And Russia and Iran are not alone in this drive to distance themselves from the dollar.

Venezuela, for one, has bet on digital currency as a way of skirting Washington sanctions that have added to the pressure created by the 2014 oil price crash and years of PDVSA mismanagement—both factors which have plunged the Venezuelan economy into a possibly irrecoverable crisis. Just today, crypto media reported that Caracas would present its cryptocurrency, the Petro, to OPEC as a unit of account for oil trading next year. "We will use Petro in OPEC as a solid and reliable currency to market our crude in the world," Finance Minister Manuel Quevedo said.

China is also openly promoting its currency for oil trade and all trade. The internationalization of the yuan is part of the New Silk Road initiative of President Xi and given China's level of oil consumption, oil trade is a big part of this internationalization. Earlier this year, China launched its long-awaited yuan-denominated oil futures contract. While the general trading public remains cautious about buying into it, some have forecast that the yuan will eventually replace the greenback as the global oil currency. And it could be joined by the euro as long as the European Union survives in the long term. After all, Russia and Iran are among the biggest oil exporters globally. That's a lot of barrels that might be soon traded in euro and not dollars.

*

Note to readers: please click the share buttons above. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

Irina *is a writer for the U.S.-based Divergente LLC consulting firm with over a decade of experience writing on the oil and gas industry.*

Featured image is from OilPrice.com