

Killing the Petrodollar

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It has taken some time for large oil and resource trading nations to wake up to the fact that they are indirectly financing America's perpetual wars, and to finally do something about it. For lay-readers it simply means that the collapse of the petrodollar puts an end to America's ability to wage continuous horrific wars for the sole benefit of large banks and corporations. However, the following article explains in more detail why certain nations have been forced to withdraw from the petrodollar's monopoly over international resource trade and to hopefully reduce it to the un-pegged value of the paper its printed on.



Russia has just taken significant steps that will break the present Wall Street oil price monopoly, at least for a huge part of the world oil market. The move is part of a longer-term strategy of decoupling Russia's economy and especially its very significant export of oil, from the US dollar, today the Achilles Heel of the Russian economy.

Later in November the Russian Energy Ministry has announced that it will begin test-trading of a new Russian oil benchmark. While this might sound like small beer to many, it's huge. If successful, and there is no reason why it won't be, the Russian crude oil benchmark futures contract traded on Russian exchanges, will price oil in rubles and no longer in US dollars. It is part of a de-dollarization move that Russia, China and a growing number of other countries have quietly begun.

The setting of an oil benchmark price is at the heart of the method used by major Wall Street banks to control world oil prices. Oil is the world's largest commodity in dollar terms. Today, the price of Russian crude oil is referenced to what is called the Brent price. The problem is that the Brent field, along with other major North Sea oil fields is in major decline, meaning that Wall Street can use a vanishing benchmark to leverage control over vastly larger oil volumes. The other problem is that the Brent contract is controlled essentially by Wall Street and the derivatives manipulations of banks like Goldman Sachs, Morgan Stanley, JP MorganChase and Citibank.

The 'Petrodollar' demise

The sale of oil denominated in dollars is essential for the support of the US dollar. In turn, maintaining demand for dollars by world central banks for their currency reserves to back foreign trade of countries like China, Japan or Germany, is essential if the United States dollar is to remain the leading world reserve currency. That status as world's leading reserve currency is one of two

pillars of American hegemony since the end of World War II. The second pillar is world military supremacy.

US wars financed with others' dollars

Because all other nations need to acquire dollars to buy imports of oil and most other commodities, a country such as Russia or China typically invests the trade surplus dollars its companies earn in the form of US government bonds or similar US government securities. The only other candidate large enough, the Euro, since the 2010 Greek crisis, is seen as more risky.

That leading reserve role of the US dollar, since August 1971 when the dollar broke from gold-backing, has essentially allowed the US Government to run seemingly endless budget deficits without having to worry about rising interest rates, like having a permanent overdraft credit at your bank.

That in effect has allowed Washington to create a record \$18.6 trillion federal debt without major concern. Today the ratio of US government debt to GDP is 111%. In 2001 when George W. Bush took office and before trillions were spent on the Afghan and Iraq "War on Terror," US debt to GDP was just half, or 55%. The glib expression in Washington is that "debt doesn't matter," as the assumption is that the world—Russia, China, Japan, India, Germany—will always buy US debt with their trade surplus dollars. The ability of Washington to hold the lead reserve currency role, a strategic priority for Washington and Wall Street, is vitally tied to how world oil prices are determined.

In the period up until the end of the 1980's world oil prices were determined largely by real daily supply and demand. It was the province of oil buyers and oil sellers. Then Goldman Sachs decided to buy the small Wall Street commodity brokerage, J. Aron in the 1980's. They had their eye set on transforming how oil is traded in world markets.

It was the advent of "paper oil," oil traded in futures, contracts independent of delivery of physical crude, easier for the large banks to manipulate based on rumors and derivative market skullduggery, as a handful of Wall Street banks dominated oil futures trades and knew just who held what positions, a convenient insider role that is rarely mentioned in polite company. It was the beginning of transforming oil trading into a casino where Goldman Sachs, Morgan Stanley, JP MorganChase and a few other giant Wall Street banks ran the crap tables.

In the aftermath of the 1973 rise in the price of OPEC oil by some 400% in a matter of months following the October, 1973 Yom Kippur war, the US Treasury sent a high-level emissary to Riyadh, Saudi Arabia. In 1975 US Treasury Assistant Secretary, Jack F. Bennett, was sent to Saudi Arabia to secure an agreement with the monarchy that Saudi and all OPEC oil will only be traded in US dollars, not Japanese Yen or German Marks or any other. Bennett then went to take a high job at Exxon. The Saudis got major military guarantees and equipment in return and from that point, despite major efforts of oil importing countries, oil to this day is sold on world markets in dollars and the price is set by Wall Street via control of the derivatives or futures exchanges such as Intercontinental Exchange or ICE in London, the NYMEX commodity exchange in New York, or the Dubai Mercantile Exchange which sets the benchmark for Arab crude prices. All are owned by a tight-knit group of Wall Street banks—Goldman Sachs, JP MorganChase, Citigroup and others. At the time Secretary of State Henry Kissinger reportedly stated, "If you control the oil, you control entire nations." Oil has been at the heart of the Dollar System since 1945.

Russian benchmark importance

Today, prices for Russian oil exports are set according to the Brent price in as traded London and New York. With the launch of Russia's benchmark trading, that is due to change, likely very dramatically. The new contract for Russian crude in rubles, not dollars, will trade on the St. Petersburg International Mercantile Exchange (SPIMEX).

The Brent benchmark contract are used presently to price not only Russian crude oil. It's used to set the price for over two-thirds of all internationally traded oil. The problem is that the North Sea production of the Brent blend is declining to the point today only 1 million barrels Brent blend production sets the price for 67% of all international oil traded. The Russian ruble contract could make a major dent in the demand for oil dollars once it is accepted.

Russia is the world's largest oil producer, so creation of a Russian oil benchmark independent from the dollar is significant, to put it mildly. In 2013 Russia produced 10.5 million barrels per day, slightly more than Saudi Arabia. Because natural gas is mainly used in Russia, fully 75% of their oil can be exported. Europe is by far Russia's main oil customer, buying 3.5 million barrels a day or 80% of total Russian oil exports. The Urals Blend, a mixture of Russian oil varieties, is Russia's main exported oil grade. The main European customers are Germany, the Netherlands and Poland. To put Russia's benchmark move into perspective, the other large suppliers of crude oil to Europe - Saudi Arabia (890,000 bpd), Nigeria (810,000 bpd), Kazakhstan (580,000 bpd) and Libya (560,000 bpd) - lag far behind Russia. As well, domestic production of crude oil in Europe is declining quickly. Oil output from Europe fell just below 3 Mb/d in 2013, following steady declines in the North Sea which is the basis of the Brent benchmark.

End to dollar hegemony good for US

The Russian move to price in rubles its large oil exports to world markets, especially Western Europe, and increasingly to China and Asia via the ESPO pipeline and other routes, on the new Russian oil benchmark in the St. Petersburg International Mercantile Exchange is by no means the only move to lessen dependence of countries on the dollar for oil. Sometime early next year China, the world's second-largest oil importer, plans to launch its own oil benchmark contract. Like the Russian, China's benchmark will be denominated not in dollars but in Chinese Yuan. It will be traded on the Shanghai International Energy Exchange.

Step-by-step, Russia, China and other emerging economies are taking measures to lessen their dependency on the US dollar, to "de-dollarize." Oil is the world's largest traded commodity and it is almost entirely priced in dollars. Were that to end, the ability of the US military industrial complex to wage wars without end would be in deep trouble.

Perhaps that would open some doors to more peaceful ideas such as spending US taxpayer dollars on rebuilding the horrendous deterioration of basic USA economic infrastructure. The American Society of Civil Engineers in 2013 estimated \$3.6 trillion of basic infrastructure investment is needed in the United States over the next five years. They report that one out of every 9 bridges in America, more than 70,000 across the country, are deficient. Almost one-third of the major roads in the US are in poor condition. Only 2 of 14 major ports on the eastern seaboard will be able to accommodate the super-sized cargo ships that will soon be coming through the newly expanded Panama Canal. There are more than 14,000 miles of high-speed rail operating around the world, but none in the United States.

That kind of basic infrastructure spending would be a far more economically beneficial source of real jobs and real tax revenue for the United States than more of John McCain's endless wars. Investment in infrastructure, as I have noted in previous articles, has a multiplier effect in creating

new markets. Infrastructure creates economic efficiencies and tax revenues of some 11 to 1 for every one dollar invested as the economy becomes more efficient.

A dramatic decline for the role of the dollar as world reserve currency, if coupled with a Russia-styled domestic refocus on rebuilding America's domestic economy, rather than out-sourcing everything, could go a major way to rebalance a world gone mad with war. Paradoxically, the de-dollarization, by denying Washington the ability to finance future wars by the investment in US Treasury debt from Chinese, Russian and other foreign bond buyers, could be a valuable contribution to genuine world peace. Wouldn't that be nice for a change?

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