Oil and the coming war against Iraq

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19 February 2003

In the lead-up to last week's global demonstrations against the impending US-led onslaught against Iraq, the London-based *Financial Times* mounted a somewhat desperate attempt to assert that oil is not one of the prime motivations for the American war drive.

In a comment published on February 12, John Tatom, from the economic department of the DePaul University in Chicago, claimed the view that America's determination to oust Saddam Hussein arose from the desire to gain Iraqi oil was "one of those great ideological divides that seem [sic] to withstand all reasoned argument." Tatom's argument was based on the often-repeated claim that there is no need for the US to seize control of Iraqi oil supplies as it would be cheaper to buy oil on the open market.

This was followed up with a piece by regular columnist Tony Jackson, published last Saturday, as more than a million protestors were gathering in London.

"Among the anti-war protestors today," Jackson wrote, "one belief will be widely shared: that the Iraq crisis is 'really' about oil. In some ways, this is unsurprising. If you find that the official reasons for war unpersuasive, you tend to seek the hidden agenda. As a doubter myself, I have no 'real' reason to offer. But I find the oil thesis troubling, since it exemplifies a set of attitudes that can have serious consequences for the wider world."

According to Jackson, the "oil delusion" had to be rejected because oil executives to whom he had spoken were unnerved by the prospect of a war and the general decline in the stock market indicated these sentiments were widely shared in the business world.

But the real reason he found the "oil thesis" so dangerous did not depend on whether it was true or not but on the consequences that might flow from it. Conspiracy theories about giant corporations running the world have "real-life consequences," he insisted, and in the event that the war went "badly wrong" and it was believed that oil companies were behind it "the backlash against big business could get really nasty."

These comments point to the motivations of other media commentators who claim to refute the connection between oil and the war on Iraq. They fear the radicalisation of broad masses of people that will follow from an exposure of the real political economy of the global capitalist system, which contrasts so directly with the picture of "free market" presented in the mass media.

Like many others before him, Jackson seeks to dismiss any economic analysis of the drive to war either by claiming it is refuted by immediate events—the statements of business leaders or market fluctuations—or by reducing it to a caricature—there is a secret cabal of business chiefs pulling the strings behind the scenes.

The significance of oil for the onslaught against Iraq is not simply a matter of the intimate oil industry connections of Bush, Cheney and other members of the administration—important as those links are. The issue goes much deeper. It is bound up with the stability of US capitalism itself and its continuous struggle to maintain dominance of the world economy.

The increasing long-term dependence of the US economy on imported supplies of oil has been well documented. The National Energy Policy Development, under the leadership of Vice President Dick Cheney, reported in May 2001 that US oil production would fall by 12 percent over the next two decades. With US oil consumption expected to rise by one-third over the same period, this means that US dependence on imported oil, which has risen from one-third in 1985 to more than half today, will climb to two-thirds.

According to the Cheney report, Persian Gulf producers alone will supply up to two-thirds of world oil exports in 2020. This means that control of the region will become even more important in the future than it has been in the past.

The significance of Iraq under these conditions has been remarked on many times. It has the world's second largest oil reserves, 115 billion barrels, a figure that may rise to as much as 220-250 billion barrels when potential reserves are fully explored.

US strategic concerns

Control of Middle Eastern oil resources has always been a matter of strategic concern to the United States. In his famous speech of 1947 when he initiated the Cold War and enunciated the doctrine that now goes under his name, US President Truman referred to the Middle East with its "great natural resources" as among the considerations that motivated the fight against "communism."

In 1974-75, in the midst of the OPEC oil price hikes and the threat of extended oil embargoes, the US administration discussed the possibility of undertaking military action against oil-producing states.

With the fall of the Shah of Iran in 1979, who was installed in a CIA-backed coup against the nationalist Mossadegh government in 1953, the US became increasingly concerned about threats to its interests in the region. Accordingly, in his January 1980 State of the Union address, President Carter warned: "An attempt by an outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force." This new policy, known as the Carter doctrine, he explained was necessitated by the "overwhelming dependence of Western nations on vital oil supplies from the Middle East."

In testimony to the Senate Armed Services Committee in 1990, following the Iraqi invasion of Kuwait, defence secretary (now vice-president) Cheney set out the issues involved in the US-led war. "Iraq controlled 10 percent of the world's reserves prior to the invasion of Kuwait. Once Saddam Hussein took Kuwait, he doubled that to approximately 20 percent of the world's known oil reserves ... Once he acquired Kuwait ... he was clearly in a position to dictate the future of worldwide energy policy, and that gave him a stranglehold on our economy and on that of most of the other nations of the world as well."

Within days of the Iraqi occupation of Kuwait, an even more blunt assessment was delivered by a "senior American official" (believed to be Secretary of State James Baker) in a comment to the *New York Times*:

"We are talking about oil. Got it? Oil, vital American interests."

In the period since the Gulf War, those interests have become more, not less, important as the figures on the dependence of the US economy on oil imports reveals. And the question of which corporations control the flow of oil is of vital significance, both from an economic and political standpoint.

As the American academic Michael T. Klare (author of the book *Resource Wars*) points out in a recent article [See *Foreign Policy in Focus* at http://www.fpif.org], one of the key objectives of the present US administration flows from the analysis made by Cheney in 1990. "[W]hoever controls the flow of Persian Gulf oil has a 'stranglehold' not only on our economy but also 'on that of most of that of the other nations of the world as well.' This is a powerful image, and perfectly describes the administration's thinking about the Gulf area, except in reverse: by serving as the dominant power in the Gulf, WE maintain a 'stranglehold' over the economies of other nations."

How important the maintenance of this dominance has become has been thrown into sharp relief by the recent conflicts between the US and "old Europe"—in particular France and Germany—in the recent period.

As Klare emphasises, control over Persian Gulf oil is also "consistent with the administration's declared goal of attaining permanent military superiority over all other nations" and the need, set out in the administration's statements on national security policy, to "prevent any rival from ever reaching the point where it could compete with the United States on something resembling equal standing."

Oil and the US dollar

In addition to the geo-political interests that operated at the time of the first Gulf War and whose importance has increased, not diminished in the intervening period, there is a powerful new reason why the US needs to ensure a "stranglehold" grip on Persian Gulf oil resources.

Various media commentators try to deny the connection between oil and the US war drive. They always insist that in the final analysis it does not matter who controls these resources since they still have to be sold on the world market where supplies will be available to the US and other purchasers.

Even assuming that the oil market operates in the way suggested (ignoring the question of boycotts, production restrictions to lift prices and other such measures) there is still another issue to be addressed—in what currency the oil contracts will be paid? And this is a question which is acquiring extreme importance for the long-term financial and economic stability of the United States.

When the Gulf War was launched in 1990, an historic transformation had recently taken place in the financial position of the US. For the first time since it became the pre-eminent capitalist power in 1914, the US had become an indebted nation. In the decade and a half since then, it has become the most indebted nation in history.

On the latest estimates, US debts to the rest of the world total more than $2.7 trillion, equivalent to more than one quarter of gross domestic product. To finance this debt, the US requires an inflow of around $2 billion per day from the rest of the world. One of the main reasons the US is able to attract such a massive inflow (amounting to around two-thirds of the international surpluses generated in the world economy) is the role played by the dollar as the central international reserve currency. It has been estimated that by the late 1990s more than four-fifths of all foreign exchange transactions and half of world exports were denominated in dollars, with dollars accounting for about two-thirds of all official currency reserves.

But the establishment of the euro by the European Union means that a potential rival has emerged on the international economic scene. At first, the continued rise of the dollar meant that the euro was not an attractive proposition. But the situation has changed with the collapse of the US share market bubble. Since the end of 2000, the dollar has fallen by more than 15 percent against the euro.

This is leading OPEC producers to consider whether, at some point in the future, it might be worth their while to shift from payments in dollars to euros. In a speech delivered in April last year, Javad Yarjani, head of OPEC's Petroleum Market Analysis Department, noted that while in most OPEC countries would continue, in the short-term, to demand payment in dollars, OPEC "will not discount entirely the possibility of adopting euro pricing and payments in the future."

A shift by OPEC to the euro would rapidly confront the US with an economic "nightmare scenario." Major oil importers would need to transfer some of their funds from US dollars reserves—stocks, bonds and other assets—into euro reserves. This would see a sharp fall in the value of the dollar, possibly setting in motion a further withdrawal of funds as investors became nervous over the value of their dollar assets. Suddenly the burgeoning US debt, which at present plays little or no role in day-to-day financial calculations, would become a factor of considerable importance.

In other words, a switch in the financial basis of the oil export market, or a significant part of it, would have major consequences for the global financial position of the US, quite irrespective of whether oil was freely available or the price charged for it. However, if the US were in control of Iraqi supplies, either directly or through a puppet, it would be in a much better position to block any currency shift by the OPEC countries.

Consideration of the long-term strategic issues make clear why Washington is being driven to use military means to try to overcome the major economic problems confronting US capitalism.

With the US having gone from being the world's leading creditor nation to its biggest debtor in the space of barely two decades, one is reminded of the prescient remark by Leon Trotsky in the late 1920s that an economic crisis would not see the weakening of US hegemony.

"Just the contrary is the case," he insisted. "In the period of crisis the hegemony of the United States will operate more completely, more openly, more ruthlessly than in the period of boom. The United States will seek to overcome and extricate herself from her difficulties and maladies at the expense of Europe, regardless of whether this occurs in Asia, Canada, South America, Australia, or Europe itself, or whether this takes place peacefully or through war" [Trotsky, *The Third International After Lenin*, p. 8].