

Will America Replace Petro-Dollar Policy?

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(Translated)

The decrease in demand for #oil followed by the increase of Saudi's and Russian's oil production and the price war between them collapsed the price of a barrel of oil on the West Texas market to fall less than a dollar. This means that oil producers were forced to pay \$37 per barrel for buyers who are able to remarket or transfer oil from oil reservoirs in America.

In order to understand the dimensions of this historical process that occurred for the first time in the history of oil trade, several things must be mentioned. Firstly, we mention the reaction of American administration which was not at the level of shock and catastrophe as expected in this matter. US President Trump has stated that his government will buy 75 million barrels to add to the US stockpile. Then he asked Congress to authorize oil companies to compensate for their losses so they would not be affected by the loss. Then he stressed that this oil crisis is temporary.

In an attempt to understand the reality and look forward to the future, we should remember the historical linkage between oil and the dollar since 1973. After the world emerged from the Second World War, America worked to formulate the world order politically through the United Nations Security Council and international alliances, and economically through Bretton Woods Agreement, International Monetary Fund and the World Bank, which linked the dollar to gold at a specific price i.e. an ounce of gold at about \$35. Then the currencies of other countries were linked to the dollar so that these countries could buy the dollar first and then convert their dollars into gold if they wanted to. America thus guaranteed the need for dollars by the countries and their seeking of dollars to obtain through loans paid either in dollars, or through selling their goods and services against the dollar. Then America officially obtained permission and license to issue large amounts of dollars on the pretext of covering the entire world's need.

However, after almost 25 years, America found that it was facing a dilemma that may constitute a real crisis for it and this crisis was represented by the presence of large amounts of dollars issued by the Federal Reserve Bank of America for its favor at first and then for the benefit of America. In case any of the countries that accumulate US dollars, proceeds to replace gold with dollars instead of buying America's exports of goods or services, America would find itself vulnerable to losing its gold reserves. In order to get out of that crisis, America looked to get rid of the Bretton Woods Agreement. Nixon, in August 1971, made a unilateral presidential decision stopping the conversion of the dollar into gold according to the Bretton Woods Agreement, considering gold as a tradable commodity like any other commodity.

However this separation of dollar and gold created a political and financial crisis for America that constituted world nations who no longer had any motivations to obtain dollars. Consequently America's ability to pump large amounts of dollars would decrease and every dollar issued by the Federal Reserve would not find its way to global markets that would in turn create a state of financial inflation exceeding the costs of the American economy. Therefore, a new global financial policy was necessary to preserve the dollar's global position as America was and still considers the need of a world for dollars as a major reason for it to issue an enormous amount of dollars in order to preserve for itself a tremendous financial wealth for its business and colonial activities to dominate the world.

America found its way from the world's urgent need for energy and thus the main source of energy represented by oil. If America guarantees that oil will be traded through the dollar exclusively, it will maintain the centrality of the dollar in the world and continue to produce dollars in massive amounts, at least equivalent to the amount of dollars needed to buy and sell oil. And America took from the 1973 war a way to raise the price of oil first through its relationship with Saudi Arabia and then it managed to conclude an agreement in August of 1973 in which Saudi Arabia agreed to sell oil exclusively in dollars and then member nations of OPEC agreed to join the selling of oil exclusively in dollars. And it became imperative for every nation that wants to buy oil to have sufficient quantities of the dollar currency in oil transactions. This means that

these countries had to accept loans in dollars or buy dollars from financial markets, or by any other means.

The important thing is that America guaranteed the continuous flow of the dollar, and the Federal Reserve guaranteed the continuous production of the dollar, regardless of whether there was economic growth inside America or not. In order to facilitate the process of dollar production without restriction, former US president Reagan in 1983 freed the dollar from another constraint, which was economic growth.

Since 1973, there had been no restlessness, rebellion, or opposition to the oil trade in dollars until recently, where trends and opinions emerged among some countries in the world, such as Russia and China, and sometimes blocs calling to stay away from the oil trade in dollars. It is true that many of them are more like maneuvers, however, there is no doubt that there is concern in American policy, and this concern increases with the repercussions of the Coronavirus crisis, the expected financial and economic collapses, especially in the oil market, after the demand for oil decreased significantly for more than 30%.

Some economic and political analysts have spoken of a new world order at a political as well as a financial level. While Kissinger spoke in an article published in the Wall Street Journal on 2/4/2020 about a change in the political world order, others spoke about the change of the global financial system. Greg Rosalsky, writer for the American newsletter NPR, wrote in an article on April 21, 2020, "Why Is The Fed Sending Billions Of Dollars All Over The World?", "*the Fed accepting its position as a de facto global lender of last resort has represented something like a revolution in the world's financial system*". The article talks about the opening of swap-lines by the Federal Reserve between it and global central banks (14 banks) through which these banks are provided with large amounts of dollars in exchange for a quantity of state currency and money. The Federal is working to connect another 170 central banks, where it works to spread and distribute \$20 trillion around the world.

It seems that the US Federal Reserve is working on an alternative plan from what has been known over the past 25 years as petrodollars, that is, the dollar versus oil. In case of oil prices being collapsed and stabilized at a price below \$10 a barrel, the amount of dollars that the Federal could produce would drop dramatically. It is obvious that the daily world oil production would be 100 million barrels under normal conditions. If the price per barrel is 100 dollars, then the US Federal Reserve would issue and print 10 billion dollars a day, equivalent to 3.65 trillion dollars annually. And if the price drops to \$10 a barrel, then the Federal balance due to the sale of oil will drop to \$365 billion only. This means that the petro-dollar policy will become a burden on the Federal Reserve System instead of being a factor of strength and vitality. Consequently, it is necessary for an alternative or work to restore oil prices to rise as happened after the 2008 financial crisis.

Some analysts have stated that the Federal is working to replace the role of the Bank and International Monetary Fund in the global lending process such that the Federal finally provides most of the world with debt linked to the dollar. This means that if the agreement is made with 170 central banks of the world, the Federal will be able to issue more than \$10 trillion annually, a number that is several times greater than what it was issuing in exchange for oil. In any case, it seems that America is now working within the Yemeni proverb, "If you are fit, marry and get a donkey, or else knee to family", which means that the drop in the price of oil to less than 10 dollars and even less than zero, as happened on Monday 20/4/2020, could deter countries like Russia and China even from just thinking about refraining from the dollar in oil trade, and America may guarantee the continuous flow of the dollar and its printing and production without any cover at all. Otherwise, it will be preparing for a worse alternative than its predecessor, summing up the dollars in exchange of debts, mortgaging the capabilities of nations and people, plundering their sovereign wealth and the people in all around the world will become enslaved and mortgaged to the families of Federal banks.

The truth is that the world will not be freed from the evils of America, its Capitalism and its usury, unless Islam returns its financial, economic and political system under its just leadership to the world.