

## Venezuela, Iran and the future of petro-dollar

Following the collapse of the Soviet Union, the 21<sup>st</sup> century began with the formation of the Eurozone and the emergence of China as a global economic powerhouse. Furthermore, this period was marked by a rise in terrorism, proxy wars and regime changes in oil-rich and geopolitically important Middle Eastern and North African countries in response to oppressive regimes and low standards of living. Control over crude oil prices has always been a key theme of the 20<sup>th</sup> century, where the US and OPEC were historic rivals. However, since the middle of the 20th century up until recently, the OPEC (the largest crude oil producing cartel) had overwhelming control. But the discovery of shale oil made the US as a number one oil crude oil producer once again.

The world's proven oil reserves amount to 1.67 trillion barrels with current annual consumption standing at 36 billion barrels per year. So, the world has nearly 50 years left to run on oil. Currently, the US controls nearly 50% of the world's oil reserves directly or indirectly through ally countries such as Saudi Arabia, Canada, Iraq, Kuwait, the UAE, Libya and Qatar (see Table 1). Since the beginning of this century, the US has assisted regime changes in oil-rich Iraq, Kuwait, Libya and Yemen and in geopolitically important countries such as Afghanistan and Egypt. Oil-rich Iraq, Kuwait and Libya hold nearly 300 billion barrels of proven oil reserves, which represents 17% of total global reserves. Iran, with 10% of global oil reserves, has posed difficulties since it is backed by Russia and China, but this has not stopped the US from strengthening its positions all around the oil-rich Middle East and North Africa.

*\*US closest ally countries*

**Table 1**

Countries with the Largest Proven Oil Reserves					
2017 Rank	Country	Reserves (million barrels)	2017 Rank	Country	Reserves (million barrels)
1	Venezuela	300,878	11	Nigeria*	37,062
2	Saudi Arabia*	266,455	12	Kazakhstan	30,000
3	Canada*	169,709	13	China	25,620
4	Iran	158,400	14	Qatar*	25,244
5	Iraq*	142,503	15	Brazil	12,999
6	Kuwait*	101,500	16	Algeria	12,200
7	United Arab Emirates*	97,800	17	Angola*	8,273
8	Russia	80,000	18	Ecuador	8,273
9	Libya*	48,363	19	Mexico	7,640
10	United States*	39,230	20	Azerbaijan	7,000
	<b>Total 20 countries</b>	<b>1,579,149</b>			
	<b>Total world reserves</b>	<b>1,677,000</b>			
	<b>Under US influence</b>	<b>766,430</b>			

The increase of the US presence in the Middle Eastern region since the 21<sup>st</sup> century was not a coincidence, but rather a well thought and calculated decision. Over the last decade, the balance of power was consistently shifting towards Asia, turning China into a leading economic and military powerhouse. Today, a second largest economy in the world (17% of world GDP), China has become a key regional player on the entire Eurasian continent. In 2017, China's oil imports reached 162.2 billion USD surpassing the US, which imported 139.1 billion USD in the same year, challenging the US-dollar-based petrodollar system. With a rapidly growing economy and ambitious trillion-dollar 'Belt and Road Initiative' intended to connect Asia, Africa and Europe, China has ambitions to dominate the Eurasian continent. As world oceans and waters are controlled by US warships and military bases, China's desire to revive Silk Route is a matter of necessity. As sanctioned vessels operating in international waters could be blacklisted or prohibited from access to ports, terrestrial routes passing through China's ally territories will not be subject to such risks.

The US-China confrontation, which has resulted in the current trade war, is not something that has happened overnight but rather a process that has been brewing beneath the surface since the start of the 21<sup>st</sup> century. It is apparent that trade deficit is a mere excuse for the US attempts to corner China; the US has been running a trade deficit with almost every nation for many decades thanks to the US dollar reserve currency status.

However, China's obvious strength is its biggest weakness. As a large economic powerhouse, China is heavily dependent on external sources of crude oil supply. China's crude oil imports in 2019 increased by 9.5% reaching a record 506 million tonnes equivalent to 10.12 million barrels per day.

### **China's top 10 crude oil suppliers in 2018**

1. Russia: US\$37.9 billion (15.8% of China's total imported crude)
2. Saudi Arabia: \$29.7 billion (12.4%)
3. Angola: \$24.9 billion (10.4%)
4. Iraq: \$22.4 billion (9.4%)
5. Oman: \$17.3 billion (7.2%)
6. Brazil: \$16.2 billion (6.8%)
7. Iran: \$15 billion (6.3%)
8. Kuwait: \$11.9 billion (5%)
9. Venezuela: \$7 billion (2.9%)
10. United States: \$6.8 billion (2.8%)

Imports from China's leading crude petroleum suppliers (Russia, Saudi Arabia, Angola, Iraq and Oman) represented over half (55.2%) of total Chinese crude oil imports in 2018. In the same year, Iran and Venezuela supplied another 9.2% of China's crude oil supply. A coup in Venezuela and the reimposition of sanctions on Iran largely deprived China of these sources of crude oil, which means alternatives had to

be sought. Saudi Arabia, Angola, Iraq and Oman cannot be considered diversified sources of crude oil for China as these countries, being US allies, could potentially, and suddenly, cut their exports to China and send its economy into deep shock.

With the United States presently controlling nearly 50% of the global crude oil supply it has an ambition to bring this figure to 75%. It is no coincidence that the US has attempted to change the regime in Venezuela in the middle of its trade negotiations with China. The reason is apparent. Venezuela, which is gravitating towards Russia and China, has the largest proven oil reserves in the world. A regime change in Venezuela, if successful, would give the US access to an additional 18% of global oil reserves, thereby bringing its total portfolio of crude oil 'control' to 65%. Together with Iran, this figure would rise to an astonishing 75% and would further cement the US petrodollar hegemony for many years to come. Iran and Venezuela, which currently control nearly 30% of the world's proven oil reserves, are both being watched closely by the US. If this goal is achieved, the US will gain almost unlimited powers and there will be no one to challenge its hegemony in the foreseeable future.

As such, Washington's ultimate goal is to gain maximum control of global crude oil supply, directly or indirectly via its allies, in order to keep not only China but also the entire world on a tight rein. It is evident that the coups in Venezuela, the reimposition of sanctions on Iran are a well-orchestrated chain of events aimed at putting pressure on China. Therefore, step by step, the US is trying to align China's future according to its own vision. On the other hand, the world is changing and reshaping right in front of our eyes with the rise of new economic powers that are readying to challenge the long established world order. As such, the 3d decade of 21th century is likely to be characterized by unprecedented confrontations that will inevitably lead to transformation of unipolar world to a multi polar one.