Drumbeat: June 8, 2013

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OPEC's slipping grasp on the world's oil market

> At OPEC's home base in Vienna last week, Saudi Arabia's powerful oil minister, Ali al-Naimi, played down the impact of the light, sweet crude that is gushing in record volumes from beneath North Dakota's bald prairie and the scrubby landscape of South Texas.
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> "This is not the first time new sources of oil are discovered, don't forget history," he said. "There was oil from the North Sea and Brazil, so why is there so much talk about shale oil now?"
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> Secretary-general Abdalla El-Badri was even more blunt: "OPEC will be around after shale oil finishes."
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> Despite the bluster from the biggest names in the 12-nation group that supplies a third of the world's oil, however, it is clear the Organization of Petroleum Exporting Countries is getting nervous, and experts are questioning how long the cartel can act together to hold sway over global oil prices.

OPEC: The ups and downs of an oil cartel

> More than 50 years after it was created to wrest economic power from the major oil companies, the OPEC oil cartel finds itself at risk of losing its dominant role in the global oil market. The group is increasingly competing with new oil sources that are starting to chip away at its share in previously secure markets, while a shaky global economy keeps demand for oil at bay. Also troubling for OPEC as it looks to protect oil prices: One key member, long-suffering Iraq, is aiming to dramatically increase production and flex its muscles again as a major exporter.
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> It adds up to a nightmare scenario for the group. China, Russia and other countries are taking early steps to emulate the North American unconventional oil boom of recent years, which has the U.S. on track to overtake Saudi Arabia as the world's largest oil producer. Some key OPEC members, meanwhile, are eager to pump as much as possible to bring in badly needed revenue, rather than restrain output as part of any concerted effort to add upward pressure to prices.

Crude Reaches Two-Week High as U.S. Employment Picks Up

West Texas Intermediate crude rose to a two-week high on speculation that demand for fuel will climb after U.S. employment gained more than forecast.

Futures capped a 4.4 percent weekly increase after the Labor Department reported payrolls advanced 175,000 in May, beating the 163,000 median forecast of economists surveyed by Bloomberg. The unemployment rate climbed to 7.6 percent from 7.5 percent in April as more Americans entered the labor force. Oil also gained with U.S. equities.

"We finally got some decent economic news," said John Kilduff, a partner at Again Capital LLC, a New York-based hedge fund that focuses on energy. "We have an upside surprise and the market is taking off. Given the momentum and strength that we are seeing generally, we can make a run to $100."

[Oil Options Fall as Futures Rally on U.S. Employment Data]

Crude oil options volatility fell as the underlying futures rallied to a two-week high on better-than-expected U.S. employment data.

Implied volatility for at-the-money options expiring in July, a measure of expected price swings in futures and a gauge of options prices, was 19.49 percent on the New York Mercantile Exchange at 3:45 p.m. compared with 21.78 percent yesterday.

[U.S. Gulf Coast Light-Heavy Differential Widens to 2-Month High]

The widening spread could be a sign of Mexico trying to maintain its crude market share in the U.S., said Amy Myers Jaffe, executive director of energy and sustainability at the University of California, Davis.

Petroleos Mexicanos, Mexico's national oil company better known as Pemex, adjusts the price of Maya at the start of every month to make sure the crude is attractive to buyers. The LLS-Maya spread widened $2.35 a barrel on June 3, the first trading day of the month.

[Refinery issues send local gas prices soaring]

Traditionally, when the calendar flips past Memorial Day, motorists expect to receive some relief at the pump, as fuel prices retreat from the expected jump into the beginning of the summer vacation season.

This year, however, many motorists have encountered something far different at service stations in Kane County and elsewhere in the Chicago area.

In the past week, rather than relaxing, the price of gasoline has surged to near record heights in northeastern Illinois and in other regions around the Great Lakes.

[Saudi's crude output rises]

> DUBAI: Saudi Arabia produced 9.6 million barrels per day (bpd) of oil in May, up from 9.3m bpd in April, an industry source said yesterday.
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> The source did not give a reason for the increase but Saudi Arabia typically raises output during the hot summer months to meet a surge in air conditioning demand.

[Gas Rigs Unchanged for Third Straight Week, Baker Hughes Reports]

> Natural gas rigs in the U.S. were unchanged for a third consecutive week at 354, according to Baker Hughes Inc. (BHI)
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> Oil rigs declined by four to 1,406, data posted on Baker Hughes' website show. Total energy rigs fell by six to 1,765, the Houston-based field-services company said.

[Rhine River Forecast to Open Fully Tomorrow After Flooding]

> The Rhine River is forecast to open fully to barge traffic overnight after floods and high waters disrupted shipments for at least five days.

[US Oil Is Ready-the Challenge Is Getting It There]

> Given increasingly abundant supplies of natural gas and crude in the U.S., some consumers scratch their heads at the sight of high gas prices, which aren't expected to sink much as the summer season gets under way.
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> Yet some observers point a finger at inefficiencies in the U.S. transportation system, which forces oil companies to rely heavily on heavy transport to move crude supplies. Crude pipelines - such as the hotly debated Keystone XL that's now mired in Washington politics - could transport fuel more rapidly and at lower cost, some argue.

[Where Does America's Oil Come From? (An Update)]

> M. King Hubbert, the originator of peak oil theory, correctly predicted in 1956 that U.S. domestic petroleum production would peak between 1965-1970. He also forecast a peak in global production by the late-2000s. In 2008, many commentators interpreted spiking crude oil prices as confirmation of Hubbert's theory.
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> But Hubbert, who died in 1989, did not live to see the "shale revolution." During the past decade, advances in directional drilling and hydraulic fracturing have made it economical to extract oil from the pores of rock. Although U.S. petroleum production is still lower

than it was at its peak in 1970, it has increased every year since 2008 with no end in sight.

Why Is Britain's Ministry Of Defense Predicting $500 Per Barrel Oil Prices?

After over three decades of relentless decline American oil production is increasing at a very rapid pace.

However, despite this radical change in American oil production I came across a report today that suggests that Peak Oil is far from dead. The British Ministry of Defense quietly released a study that suggest that by 2040 the price of oil is going to be a dizzying $500 per barrel.

I don't have any idea if oil is going to be $500 per barrel by 2040, but I do have some thoughts on why Britain's Ministry of Defense thinks oil prices are going much higher.

Start Your Engines: NatGas Revs for Transportation

Despite the slow rate of adoption of natural gas to fuel motor vehicles, a confluence of trends in favor of natgas is shaping up to loosen the stranglehold petroleum has on the transportation fuel market, according to Citigroup.

In a lengthy research report this week, the bank cited rising global natgas supplies, its relatively cheap price and ongoing environmental concerns among factors that "virtually guaranteed" an era where natgas would challenge the dominance of crude and distillates in the transportation market. Specifically in the U.S., the shale boom transforming energy markets is providing a major impetus to natural gas, Citi said.

Gas Shortages Felt Around Indonesia

Though Ratih, a 44-year-old resident of East Jakarta, felt fortunate to find a 3-kilogram gas cylinder for her stove, she was alarmed at how much the price had gone up since she last purchased one.

“It’s difficult to find [these] cylinders … I went quite far to find one. The price is going up, though. I paid Rp 18,000 [$1.83] this time, whereas I paid Rp 15,000 last time,” she said on Saturday.

Shell boss Voser warns Europe must 'stay competitive'

The head of oil giant Shell has told the BBC that Europe faces a growing struggle to compete with the US economy.

Cheap energy released by the process of fracking has revolutionised the US energy market.

[British Gas owner poised for role in UK fracking]

Centrica, British Gas's owner, is in talks to buy into Cuadrilla Resources, chaired by the former BP chief executive Lord Browne, in a move that could boost the UK's nascent shale gas industry.

[China keen for upturn as commerce with Iran takes a tumble]

China is Iran's biggest trading partner, purchasing up to a fifth of Iran's oil exports annually.

As Iranian elections take place on Friday, companies in the world's second-largest economy, and Beijing, will be hoping for a change of tack from Tehran's new leader.

[Nigeria army says arrests man behind Delta police killings]

YENAGOA, Nigeria (Reuters) - The suspected mastermind behind an ambush in Nigeria's oil-producing Niger Delta in April that killed 12 policemen has been arrested, the military said on Friday.

[The Scariest Graph for Utility Investors Everywhere]

Keep your lights on and your fridge open if you know what's good for your investments. According to a recent report, electricity demand growth is dropping – fast. Let's take a look at the numbers, and whether this report is fuel on the fire for this overvalued sector.

[Between Scylla and Charybdis: Energy privatization in Greece]

Greece is in the process of privatizing two energy-related companies: the Public Gas Corporation (DEPA) and the Administrator of the Natural Gas System (DESFA). In both cases the highest bidders appear to be Russian companies: Gazprom for DEPA and Sintez for DESFA. But Athens finds itself between a rock and a hard place. On the one hand it is under heavy pressure from the troika of Greece's international lenders – the European Union, the European Central Bank and the International Monetary Fund – to privatize and meet specific fiscal targets, and on the other it is the recipient of "friendly advice" from the US and the European Commission to avoid selling DEPA and DESFA to Russian companies because of geopolitical considerations. More specifically, there is concern about Russia's business practices in its own energy sector and also about Europe's dependence on Russian natural gas. The latter is, of course, very important,

> although there is a feeling of double standards as a close energy relationship like the one between Germany and Russia (with the construction and operation of the Nord Stream gas pipeline) did not cause similar concerns.

[North Dakota grows five times faster than nation]

> NEW YORK (CNNMoney) - Propelled by a massive energy boom, North Dakota once again captured the title of the nation's hottest economy, with a growth rate five times the national average.

[Canada's provinces move on new energy fronts]

> CALGARY – Canada's bid to find new markets for its oil and natural gas inched forward Friday, as British Columbia unveiled a new natural gas-focused ministry and New Brunswick deepened support for a plan to pipe Alberta crude east.

[Tucson pipeline plans still in works]

> Kinder Morgan Energy Partners LP's recent decision to shelve plans for a crude oil pipeline from Texas to California has no effect on the company's plans for a natural gas pipeline from Tucson to the Mexican border through the rural Altar Valley, a company spokesman says.
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> Kinder Morgan has applied to build a 59-mile pipeline carrying natural gas from the Tucson area to Sasabe. The project would connect with a $460 million pipeline that the Japanese company Mitsui Co. has announced it plans to build south into Mexico.

[Kazakhstan holds oil spill response exercises in Caspian Sea]

> Kazakhstan, Astana - The Republican command staff exercises "Kashagan-2013" for oil spill response were conducted in the Kashagan field in Kazakhstan, the North Caspian Operating Company (NCOC) told Trend on Friday.
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> "The participants eliminated the consequences of the second level conditional oil spill on the first day of the exercises," the statement said. "The equipment and appliances of the North Caspian project participants were used."

[In nuclear power, a better way? Here's why.]

> When I first heard about this, it sounded like one of these miracle cancer cures you read about on the Internet. In this case, the cancer is climate change, and the miracle pill is something called the integral fast reactor, a different way of producing nuclear power. It seems too good to be true, but it looks like it is ... true.

[$1 Billion Nuclear Power Project Abandoned In Iowa]

> Plans for Iowa's second nuclear power plant have been dropped by Mid American Energy. No design has been approved for the type of nuclear plant the company had intended, so they have let the idea go. It was reported that ratepayers will be refunded the $8.8 million they paid for a completed feasibility study. Sites not far from Council Bluffs and Davenport were being considered for the plant.

[Shutting down San Onofre: How much should Edison's customers pay?]

> The decision to close the San Onofre nuclear power plant is only the start of many decisions to come: How will the decommissioning be carried out to maximize safety and restore the land as close to its original condition as possible? (The fuel has to stay on site, however, encased in casks that are then encased in concrete.) Where will Southern California Edison's customers get the power that the nuclear plant used to provide? (Supplies are expected to be adequate through this summer.)

[Who should pay for San Onofre fiasco? The answer is obvious]

> There may be lots of questions yet to be answered about Southern California Edison's permanent shutdown of its San Onofre nuclear plant, but here are a couple about which there's no doubt.
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> Who's responsible? Edison, 100%. Accept no argument that it did the best it could in overseeing a $700-million generator replacement project, but accidents happen. This wasn't an accident: It was the product of what Edison claims was its rigorous oversight of contractors.
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> How much should Edison's customers pay for the misengineering and mismanagement that led to mothballing a hugely important generating station? That's easy. The answer is nothing. Not a dime.

[Earthship homes: Living off the grid]

> Earthship homes, the creation of architect Mike Reynolds, have been around since the 1970s. Typically they're solar-heated buildings constructed of tires that recycle water and are off the electric grid.
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> "They are becoming increasingly mainstream because everyone is becoming more aware of climate change and dwindling resources," says Reynolds, the founder of Earthship Biotecture based in Taos, N.M. "This is something that actually works and does not need fossil fuels."

[When school's out for summer, many kids are at risk of going hungry]

> The hot summer months bring a fresh challenge for food banks in the nation's poorest and hungriest counties: How to make sure millions of children get regular, healthy meals when they aren't in school.
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> "The time of year in the United States (that) an American child is most likely to go hungry is the summertime, and the principal reason for that is school is out," said Kevin Concannon, undersecretary for food, nutrition and consumer services with the USDA.

[Cuba's Other Revolution]

> But before seeking to apply the Cuban experiences to other countries and contexts it is necessary to consider the country's unique and extraordinary circumstances. The 1959 revolution and subsequent sweeping land reform were a unique happening in Latin American history: the landed ruling class was defeated, uprooted and expelled. The country's wealth and land were redistributed; and as a result, access to land is not a problem, and all farmers in the country enjoy first-rate free education and health care. Latin America's land-owning elites, assisted by the murderous US counterinsurgency, have not spared any resources, be they financial, ideological or military, to prevent another Cuban-style revolution in the Western hemisphere.
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> Nevertheless, many of Cuba's lessons can be learned and applied in other countries. One of the key elements in the success of agroecology and food sovereignty in Cuba has been the support of the state. The Cuban experience demonstrates that a successful transition to agroecology requires major involvement by the public sector. The country's organic revolution contradicts the common image of the Cuban government as bureaucratized and lacking in creativity or imagination. If the Cuban state were as inflexible and inefficient as the revolution's derisive critics make it out to be, it would not have taken the right measures, and in a rapid and decisive manner, to avert a fatal food crisis.

[Land degradation threatens food security]

> WITH two centuries of an unprecedented population boom, likely to reach 9 billion by 2050, land degradation by human activities and climatic upheavals poses a threat to food security, especially in a land-scarce country like Bangladesh.
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> Historically known, it took the human species about 1,50,000 years to reach the 1 billion mark around 1800. Since then an additional 6 billion (!) have been added to the headcount — reaching 7 billion in 2011.
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> In such a grim scenario, it is apparent that soil, like water has become a fundamental resource but it is being degraded. The process of soil degradation can take different forms: hydraulic erosion, wind erosion, changes in the soil's composition and physical degradation. Most people in our part of the world do not know that over 50% of the land that has been degraded by deforestation are situated in Asia and 15% are in South America and. At the same time, 37% of the soils are degraded by inappropriate

agricultural practices in Asia.

[Tough spot for farmers: Adapting to change you can't believe in]

Simply adapting to changes as they happen may be enough to keep farmers in business in the short term. In the long run, however, the advantage will go to those farmers who are able to plan ahead and make investments with a clear-eyed assessment of the science. In other words, there's now a strong economic incentive to stop denying the reality of climate change.

[Severe African Drought In The 1980s Caused By Northern Pollution]

In the 1980s, decades of drought in central Africa reached the worst point. This caused Lake Chad, a shallow lake used to water crops in neighboring countries, to dry out almost completely.

Initially blamed on overgrazing and bad agricultural practices, the shrinking lake and extended drought have become examples of global warming. A new study from the University of Washington reveals that the drought was cause in part by Northern Hemisphere air pollution. The findings of this study were published in the journal *Geophysical Research Letters*.

[Mexican Climate Fund Short of Cash, Slow Off the Mark]

MEXICO CITY (IPS) - The Climate Change Fund set up in November in Mexico faces enormous challenges such as the enforcement of anti-corruption standards, which make it unlikely that concrete actions will begin this year, according to civil society organisations.

The fund, which will allocate resources to mitigate and adapt to climate change, was created under the General Climate Change Law of June 2012, with an initial budget of only 78,000 dollars, assigned mainly for administrative expenses.

[Climate change is happening but we can meet the challenge]

As carbon emissions rise inexorably, it's easy to feel powerless as catastrophe looms. But activism is a chance to take control.