



## The Round-Up: January 8th 2007

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### [Venture capitalists look at alternative energy](#)

Investors in start-ups are expected to pump even more money into energy ventures in 2007 after doubling their bets last year amid shifting politics and global-warming worries.

Venture-capital firms poured \$536 million into biofuel and other energy ventures in the first three quarters last year vs. \$224 million in all of 2005, said industry tracker Dow Jones VentureOne.

Last year's gain came as overall VC investing rose a smaller 9.7 percent, to \$19.5 billion, from 2005's comparable three quarters. The rise also dwarfed the figure five years before, when investors flocked to energy during California's electricity crisis, only to cut back after the crisis passed.

Now, VCs are returning to the sector, following a "sea change" of interest in alternatives to conventional energy sources, said John Denniston, a partner at Kleiner Perkins Caufield & Byers.

### [Is the Anglo-American empire losing the "Great Energy Game"?](#)

While China and Russia continue to "win" in Central Asia, the West continues to lose political and economic clout everywhere.

The George W. Bush administration's destructive "war on terrorism," begun with 9/11, has failed to accomplish its central purpose, which was to occupy Central Asia and the Middle East, control the energy flows and strategic corridors across both regions, while blocking competitive cooperative agreements and energy-related ventures by Russia and China.

The increasing Chinese stake in Kazakhstan, and the successful Russian influence over Central Asian energy flows, is a particularly bitter defeat for a Bush administration now staring back at years of disastrous and blood-soaked failure.

### [LNG dream hinges on pacts](#)

The backers of a liquefied- natural-gas project destined for Kitimat, B.C., remain upbeat, but admit construction of the \$600-million to \$700-million regasification terminal is hung up by their failure to secure firm, long-term natural-gas supply contracts.

Site preparation along the coastal city's deep-sea port was supposed to have started two months ago, and with no activity underway, skepticism began festering in the hard-luck community about the project's chances.

Executives with Kitimat LNG Inc. say their financing is contingent on landing long term deals with suppliers to fill about two-thirds of the plant's capacity of one-billion cubic feet of gas per day.

So far, the subsidiary of privately held Galveston LNG of Calgary has a memorandum of understanding with an Australian supplier for about 300 million cubic feet a day, but the Sydney- based producer, LNG Ltd., has issues of its own to weed through at the source, Papua New Guinea, where it hopes to produce the LNG.

### [Terra Nova production rising](#)

Production appears to be increasing slowly, but surely, at the Terra Nova oilfield.

The field pumped more than 1.66 million barrels of crude during 19 days in November - averaging more than 87,000 barrels per day.

That's almost as much as the 1.68 million barrels of crude produced at the Grand Banks oilfield during 21 days last April - shortly before the field shut down in early May.

### [Lexcore Unveils New Oil Sands Drilling System](#)

Designed in close consultation with industry leaders, Lexcore's drilling/coring system is ideally suited for the exploration coring required for the massive amount of land poised for development in Alberta's oil sands.

Stretching over an area the size of the state of Florida, Alberta's oil sands have yet to produce even 3 percent of their reserves and, even after the incredible scale of recent investment, only one quarter of its area is even under development.

"The demand for equipment to explore the vast oil sands is incredible and we believe the prospects for future growth are robust," Mr. Nimeck said.

Lexcore's advanced drilling/coring system is both dramatically smaller and faster than conventional rigs and is set apart from the crowd by utilizing a true top-drive, offering twice the drilling RPM to dramatically increase the rate of penetration.

Despite being produced for a fraction of the cost of conventional drilling rigs, Lexcore's system can be manufactured in months, as opposed to the years it currently takes to build a traditional drilling rig in North America's overheating oil industry.

### [Rise in Ethanol Raises Concerns About Corn as a Food](#)

Renewing concerns about whether there will be enough corn to support the demand for both fuel and food, a new study has found that ethanol plants could use as much as half of Americas corn crop next year.

Dozens of new ethanol plants are being built by farmers and investors in a furious gold rush, spurred by a call last year from the Bush administration and politicians from farm states to produce more renewable fuels to curb Americas reliance on oil. But the new study by the Earth Policy Institute, an environmental group, found that the number of ethanol plants coming on line has been underreported by more than 25 percent by both the Agriculture Department and the Renewable Fuels Association, the ethanol industrys main lobbying group.

### [New prospect for US: glut of ethanol plants](#)

The immediate concern of the Earth Policy Institute (EPI), which released the new report, is the impact on the global food supply.

"We're worried there will be less to feed the world if we're using too much corn to make fuel," says Lester Brown, EPI's president. "The US .. supplies 70 percent of the world's corn exports. These previously unidentified distilleries could have a big negative impact."

Wall Street investment banks and farm cooperatives continue to pour billions of dollars into building ethanol plants, basing their decisions in part on predictions of future capacity by the Renewable Fuels Association. The RFA lists 65 plants under construction. But EPI, which put together its own tally using several industry lists, has found 79 such plants.

That extra capacity has major implications for agriculture and the ethanol industry. Using the RFA's lower estimate, the US Department of Agriculture has forecast that ethanol biorefineries - also called distilleries - will need about 60 million tons of corn from the 2008 harvest. But if EPI's higher estimate for plants is correct, then up to 139 million tons of corn will be needed.

### [Commodity sell-off may be sign of slowdown](#)

A U.S. sell-off in commodities -- from copper to crude oil -- over the past few sessions is telling some veteran market watchers there that a slowdown in economic growth, likely one of considerable magnitude, is already under way. In the last two days alone, U.S. commodity prices seem to have fallen off a cliff.

Copper futures, which tumbled 7.7 per cent on Wednesday, fell another 1.8 percent on Thursday -- and have dropped 27 percent from their December highs.

Crude-oil prices fell nearly five per cent, following a four per cent drop in the previous session. The front-month futures contract was trading at its lowest level since June 2005.

In fact, everything from grains to base metals to livestock to cotton has been selling off over the past few sessions.

The Dow Jones AIG Commodity Index was last down 3.2 percent at a 3-month low.

Most commodities are used in the production of industrial goods. When producers start demanding fewer raw materials, it becomes noticeable in commodities prices much earlier than in official economic statistics, explained Barry Ritholtz, chief market strategist at Ritholtz Research & Analytics.

Copper, in particular, is often used as a reliable economic indicator because of its widespread use in production.

"Copper is the metal with a Ph.D. in economics," Ritholtz said. "It's used in the wiring of homes and offices, in plumbing in construction, and it's also a key component in electronic goods.

"When it softens, it means we're making fewer homes, offices and computers."

### [Enel to build wind farms in Kansas and Newfoundland](#)

Enel SpA, Italy's largest utility, said Friday it has agreed to build two wind farms in the United States and Canada with a combined capacity of 277 megawatts, part of a planned \$5.2-billion (U.S.) investment to boost its presence in renewable energy.

Enel said a 250-megawatt capacity wind farm will be built in Smoky Hills, Kan., and a 27-megawatt plant in Newfoundland - reducing carbon emissions by 415,500 tons a year.

### [Oil - the Fast-Vanishing Drug the World Can't Yet Live Without](#)

Our cities have been allowed to sprawl - particularly in the US, where, until recently, petrol cost less than bottled water. And almost everything we consume in developed countries depends on it. About 10 calories of fossil fuels - principally oil - are burned to produce every calorie of food consumed in the US. A staggering 630g of them are burned to produce a single gram of microchips. And making a car consumes the equivalent of 840 gallons of petrol, enough to drive it for the first two years of its life.

Even some alternative energy sources advanced as oil's replacements in fact crucially depend on it. Nuclear power is fuelled by uranium, mined and transported by oil-powered machinery and vehicles. Biofuels depend on crops grown by oil-powered intensive agriculture.

Worse, the world's entire financial system is based on the assumption that the decades of growth fuelled by cheap oil will continue. A permanent shortage, by some predictions, would lead to another Great Depression lasting for generations, sparking conflicts as nations fought over shrinking supplies.

### [The Land of Rising Conservation](#)

Japan is the most energy-efficient developed country on earth, according to most

specialists, who say it is much better prepared than the United States to prosper in an era of higher global energy prices. And if there is any lesson that Japan can offer to Americans, they say, it is that there is no one fix-all solution to living with oil above \$50 a barrel.

Rather, as Mr. Kimura shows, it is a combination of many things, from the most advanced technologies to the simplest frugality in everyday life and an obsession with saving energy that keeps his family huddled in a single heated room during winter.

Japan tops most global comparisons of energy efficiency in wealthy nations. Its population and economy are each about 40 percent as large as that of the United States, yet in 2004 it consumed less than a quarter as much energy as America did, according to the International Energy Agency, which is based in Paris.

Japans obsession with conservation stems from an acute sense of insecurity in a resource-poor nation that imports most its energy from the volatile Middle East, a fact driven home here by the 1970s shocks. The guiding hand of government has also played a role, forcing households and companies to conserve by raising the cost of gasoline and electricity far above global levels. Taxes and price controls make a gallon of gasoline in Japan currently cost about \$5.20, twice Americas more market-based prices.

### [Québec Sees the Energy Tide Turn](#)

Here in the normally frigid climes of Canada, the snow is melting. I arrived here last week to celebrate the dawn of 2007 in North America's French metropolis, and amid the cheerful soirées and greetings of "bonne année!" I learned just how pivotal energy is to this unique corner of the continent.

Canada is America, but it is not the United States. Many of my countrymen take the attitude that there is but one voice in English-speaking North America, and that we somehow have a right to the adjoining boreal territory and its resources.

### [Oilsands rush raises concerns for energy board chairman](#)

The oilsands rush startles even Neil McCrank, chairman of the Alberta Energy and Utilities Board.

"I was amazed at the depth and the extent of the development going on," McCrank said in an interview after touring the bitumen belt. "When you see it live it is a compelling story."

### [The greening of the oil sands](#)

To Mr. Mansell, the answer is clear, though it sounds like an oxymoron: A green oil sands - a future that marries what he calls the 3 Es, energy, environment and economy, using technology to increase recovery, reduce emissions and capture carbon dioxide.

But the key, he insists, is the government taking charge, making hard and clear rules, instead of waiting and hoping industry will make the full push.

## [Intelligent Growth: A Vision for a New Low-Energy Economy](#)

TEQs includes every energy user and every energy provider in the national economy. They are measured in units, and every adult is given an equal annual allocation. Industry and government bid for their units at a weekly tender. Units can be traded. Anyone who uses less than their entitlement can sell their surplus, and anyone can buy more units if they need them. The total number of TEQs available is set out in a TEQS budget (set by an independent Energy Policy Committee) that looks 20 years ahead. The size of the budget goes down week by week, step by step, like a staircase.

By rationing energy, the TEQs scheme automatically places limits on our exploitation of nature, since without energy, resources cannot be extracted or processed. So, with TEQS, we eliminate, at a stroke, the need to separately monitor our use of a plethora of resources. The final amount of energy available to the nation -- the lowest rung of the energy step -- is set at a level low enough to ensure that the economy does as little harm to the natural world as possible while ensuring that citizens enjoy a simple but comfortable standard of living. For the time being, while we still have fossil fuels, TEQs units would be carbon-linked, but if we do one day manage to develop climate-neutral energy sources (such as widespread renewables) the units would be energy-linked -- to joules or kilowatt hours.

## [The secret life of arctic clouds](#)

Scientists are peering into the clouds near the top of the world, trying to solve a mystery and learn about global warming. The mystery is the droplets of water in the clouds. With the North Pole just 685 miles away, they should be frozen, yet more of them are liquid than anyone expected. So the scientists working out of a converted blue cargo container are trying to determine whether the clouds are one of the causes -- or effects -- of Earth's warming atmosphere.

"Much to our surprise, we found that Arctic clouds have got lots of super-cooled liquid water in them. Liquid water has even been detected in clouds at temperatures as low as minus 30 degrees Celsius" or minus 22 F, said Taneil Uttal, chief of the Clouds and Arctic Research Group at the Earth Systems Research Laboratory of the U.S. National Oceanic and Atmospheric Administration (NOAA).

"If a cloud is composed of liquid water droplets in the Arctic, instead of ice crystals, then that changes how they will interact with the earth's surface and the atmosphere to reflect, absorb and transmit radiation," Uttal said.

"It's a new science, driven by the fact that everybody doing climate predictions says that clouds are perhaps the single greatest unknown factor in understanding global warming."

## [Fearing oil crunch, EU eyes alternatives](#)

An energy crunch that chokes fuel supplies, dims the lights at homes and workplaces, and ravages Western economies may no longer be the stuff of 1970s history books. It

could be a vision of the near future.

The 1970s oil crisis gave Western countries a glimpse of what life is like when the energy supply isn't enough to go around.

Worried that an even bigger crisis lies in wait, the European Commission is presenting an energy "roadmap" on Wednesday that aims to steer the bloc's 490 million people in a different direction.

The policies, of unprecedented scope, will carry a plain warning: High and volatile oil prices, surging demand, unreliable supplies and global warming compel Europe to reconfigure its energy supply before it's too late.

### [As EU goes greener, industry fears cost](#)

To retain leadership in the battle to curb climate change, the European Union believes it must show the rest of the world how to stop a predicted ecological catastrophe, while maintaining a healthy environment for business. But that lofty goal the promise of green growth looks somewhat different from the factory floor, according to Michel Wurth, president of Arcelor Mittal France.

Arcelor Mittal, the world's largest steel company with 135,000 workers in Europe, is among several companies that are sending out distress signals two years after the EU began capping carbon dioxide emissions from 10,000 factories and power plants. Tougher EU policies to cap emissions "could threaten two of our plants" because they would significantly raise costs, Wurth said during a recent interview. Instead of battling pollution, he argued, the measures were encouraging "less production in Europe and more imports from places with fewer environmental regulations" a result that Wurth deemed "absolutely ridiculous."

### ['Attack dog' in Environment](#)

John Baird may not be the "Jolly Green Giant," but he plans to join hands with experts and political rivals to advance the government's environment agenda.

While critics suggest the "attack dog" politician has the wrong temperament to stickhandle the hot-button environmental file, Baird said he will solicit help from all camps to tackle the "huge challenge" of climate change.

### [Whatever happened to moral hazard?](#)

Junk bonds in Europe, according to Merrill Lynch's own data, now yield just 2.3 percentage points more than government debt. Back in 2001, the gap was 16.5%. Junk bonds only one grade above default now pay just 4.6 percentage points more than government debt. Six years ago the gap was 42% wide.

But who cares about words like default or risk? "Investors are clamoring for junk bonds," reports Bloomberg. They've got to get yield from somewhere, remember. "Sales

of the lowest-rated [European] debt jumped 45 percent in the past year [while] investors poured a net €1.7 billion into high-yield corporate bond funds, double the €864 million in 2005."

"People are having to go further and further down the ratings scale to get yield," says our junk-loving friend. A bond manager at Insight Investment Management in London, he runs \$94 billion in assets. And with everyone rushing into Eastern Europe in the search for yield, each Dollar he puts into junk only helps to push prices higher, sending yields lower, pushing him another step down the ratings scale in search of return.

This, in a nutshell, is moral hazard at work in the financial markets today. You might remember the phrase from when Sir Alan of Greenspan backed the bail-out of Mexico's Peso Crisis...then the Asian Debt Crisis...and then the Long Term Capital Management Crisis.

Save one crazy risk-taker, went the theory, and everyone will expect you to bail them all out. In the 21st century, the "Greenspan Put" has worked to push all assets higher by slashing interest rates – at the US Fed, at the Bank of England, the ECB and the Bank of Japan. If prices turn lower, everyone thinks, interest rates will fall again. Soon. To stop prices falling. Which they can't, of course, because of all this cheap money.

### [Fear During a Recession](#)

The worst thing about a recession for most Americans is the ticking of the debt meter. It doesn't stop ticking just because the economy is in recession. It ticks louder.

People freeze up when they get scared. They put off making purchases. They cut expenses. But there are limits to what they can do. They live so close to the edge of their budgets that there is not much fat to cut in relation to disposable, after-tax income. The debt meter ticks.

This is why the auto industry is always hit hard in recessions. People can forego buying a new car.

The housing market has turned people's homes into ATMs. People borrow their homes equity. But this process has begun to slow down. When equity begins to shrink in the next recession because of falling home prices, it will dawn on a growing number of Americans that they have been eating their seed corn.

What is really scary in the housing market in a recession is the increase in illiquidity. People refuse to face reality: Their real estate is worth less than before. When they decide to sell, they hold out for last year's price. They sit. They grow fearful. They still sit. Then they grow panicky. Eventually, they are forced to move: a lost job, a transfer, a foreclosure, or something that leaves them without recourse. They may walk away from the house.

They lose their credit rating when they do.

### [Canadian Dollar hit from all sides](#)

"There have been a lot of virtuous circles that had built up in Canada among

fundamentals, among momentum, among performance-chasing, that had really accelerated the currency's performance to the upside," said David Wolf, Canadian economist at Merrill Lynch in Toronto. "And one could easily see a situation where those virtuous circles turn vicious ... and the whole thing spirals back down, and we could be on the cusp of that."

Mr. Wolf said Canadian growth could be a "near-recessionary" 0.5% in the fourth quarter of 2006, a dramatic decline from 3.6% in the first quarter. Inventory accumulation in 2006 could beat the 2005 record, and with the inventory-to-sales record at a decade-high companies will want to work off the glut before ramping up production again.

### [Household debt sets record](#)

"Household debt continues to rise at a robust pace--about 10% year over year .. ," it says. "The increase in debt has contributed to a further rise in the debt-to-income ratio."

That could be worrisome, it suggests, noting that the health of the country's financial system is dependent on the health of household finances.

"Household credit accounts for about 70% of the total Canadian dollar loan exposure of Canadian banks," it says. "Consequently, assessing the financial health of Canadian households is an important part of our assessment of risks in the banking sector and in the financial system as a whole."

### [Canadian activist condemns role of NAFTA in Mexican political unrest](#)

The Council of Canadians has been working with Mexican and American counterparts to oppose the Security and Prosperity Partnership (SPP), an agreement between Canada, the U.S. and Mexico aimed at taking NAFTA a step further by harmonizing domestic and foreign policies across the continent in order to facilitate trade.

"The protests in Mexico show that free trade has failed to serve ordinary citizens," says Pickard. "As it prepares to host the next SPP summit, the Canadian government must acknowledge the growing resistance to their corporate-driven agenda for North America."



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