



The Round-Up: January 12th 2007

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[Massive Quebec hydro project faces native opposition](#)

Quebec Premier Jean Charest announced the start of construction Thursday for the province's biggest hydroelectric project in a decade, the \$5-billion Eastmain -1-A in northern Quebec.

But what would have been a ground-breaking ceremony were it held up north in James Bay turned into a news conference in Montreal after rumours that Cree opponents to the plan were going to protest....

....Mr. Charest said hydroelectricity is an economic development tool for Quebec that will benefit all of its citizens, including the Cree.

Construction of the dams will be completed between 2009 and 2012 and will create thousands of direct and indirect jobs.

Chief Matthew Mukash of the Grand Council of the Crees, lent his support to the project but admitted he did so with some sadness.

"I know that a lot of Cree people are concerned today and it's probably a very sad day for a lot of people. It's a sad day for me," he said.

[Dion pitches environmental tax reform in Alberta](#)

Mr. Dion says such "environmental tax reforms" would make Alberta's economic boom sustainable for many years to come.

"I will be the best partner they [Alberta] ever saw from Ottawa if I become prime minister, because I am committed to help Albertans have sustainable development," Mr. Dion said Thursday during his first visit to the province since winning the Liberal leadership last month.

"If we succeed in making Fort McMurray sustainable, we will succeed everywhere in the world, because we will export our new technologies, our know-how, and we will make megatonnes of money with it."

[NDP plotting strategy to out-green its rivals](#)

The NDP Leader was taken to task this week in a letter from Buzz Hargrove, head of the Canadian Auto Workers union, who said Mr. Layton's call for regulations that would require more environmentally friendly cars will kill jobs.

Mr. Layton and Mr. Hargrove talked about their differences over the phone this week.

"We're certainly happy to meet and work with him on this, but what's clear is we have to start to change our direction here," Mr. Layton said. "Otherwise our industry is going to start to get into deeper and deeper trouble and the efficient cars that people are looking for are going to be coming from China."

It's a line of debate the environmentalists find frustrating.

"He keeps talking a lot about green cars," Mr. Bennett said of Mr. Layton. "A really tough stand on cars, in the short term, is not relevant."

[Perfect oil storm: Alberta's new premier is reviewing oil royalties, while Stephane Dion wants to scale back resource write offs](#)

All this is temporary compared with the perfect fiscal storm awaiting Canada's oil and gas sector. It has not taken long for Alberta's new premier to announce a review of its royalty regime: His government faces a crunch from high spending and slow revenue growth, in part due to low royalty payments during the startup phase of oilsand developments (although these may quickly pick up after 2012, according to one recent study). In the meantime, federal politics are increasingly focused on environmental issues, with the Conservative government succumbing to a plethora of ineffective, costly tax incentives and Liberal Stephane Dion ruminating about the possibility of scaling back tax write-offs for resource investments that aren't targeted to zero emissions. To back up his claims, he uses a recent faulty Pembina study mismeasuring "subsidies." All this spells trouble for oil and gas projects, which could give Canada a Putinesque image.

[A Pivotal Year](#)

Exploration luck in the Orphan basin offshore Newfoundland, Premier Danny Williams's energy plan and a hulking new refinery in New Brunswick are the big wild cards that will be closely watched this year in Atlantic Canada, whose provincial economies are otherwise expected to sputter along...

....But Newfoundland, whose economy has become heavily dependent on the energy sector -- the three oil projects produce a combined 350,000 barrels a day -- is also at a crossroads as its premier, Mr. Williams, is expected to roll out a new energy plan early in the year that some predict could scare away any future oil investment.

"The energy policy will have a huge impact on future investment and has implications for the whole Atlantic region," said Paul Barnes, Atlantic Canada manager for the Canadian Association of Petroleum Producers. "It can mean a change in royalties, it can mean Newfoundland wanting ownership of projects. What the industry is looking for, most of all, is clarity and if it comes out and it's not definitive, then that will be a great concern."

[Canadian Imperial Venture Submits Request for Significant Discovery License](#)

Canadian Imperial Venture has submitted a request for a Significant Discovery License ("SDL") within the offshore exploration License 1071 ("EL 1071") to the Canada-Newfoundland and Labrador Offshore Petroleum Board. The request was made by ENEGI Inc., a wholly owned subsidiary of CIVC, on behalf of itself and PDI Production Inc. ("PDIP"), its partner in the Port au Port area.

EL 1071 is immediately adjacent to the onshore discovery at Garden Hill where a multi-million dollar well re-entry and test program is presently being conducted on the ST No.2 well, which was drilled by CIVC in 2002.

[Canada will be off Kyoto targets by 50 per cent in 2012, Harper says](#)

Emissions of greenhouse gases are on track to rise dramatically over the next five years, Prime Minister Stephen Harper predicted yesterday. The comment, coming just days after a cabinet shuffle saw the pugnacious John Baird take control of the key environment portfolio, left critics questioning the seriousness of a government pledge to do "a lot more" on the environment.

Statements from senior Conservatives, including former prime minister Brian Mulroney, have made clear in recent weeks that environmental concerns have become a top issue for voters, but yesterday's comments appeared to critics to mean there will be little change in the months to come.

Describing climate change as a long-term problem, the Prime Minister indicated his government's approach will not include meeting Canada's international targets under the Kyoto Protocol.

"I think the preponderance of the evidence on [climate change] is clear, that it's a real long-term challenge, but what I've said is it can't be fixed overnight. This country is headed to be 50 per cent above its Kyoto target in 2012," Stephen Harper said on CTV's Question Period. "We can't tell the Canadian population to heat its homes one-third less of the time. So we've got a major challenge and we're going to get on with it."

[Kyoto accord needed because problem is global](#)

Global warming is exactly that – it is global.

Therefore, it can only be dealt with globally, by an international treaty. There are lots of flaws in the Kyoto treaty. The free rides for countries like China and India can't be sustained. Cheating and fudging of the figures has to stop.

This, though, happens with every international treaty.

It's that the treaty itself should be an international one that matters. This provides the mechanism by which, as public concern about the environment develops in this country,

politicians everywhere will be put under increasing pressure to translate generalities into concrete action.

And this is happening. In China, it's becoming politically acceptable for people to complain about environmental pollution. The U.S. performance on reducing greenhouse gas emissions is probably now better than ours, if only because of actions taken at the state level rather than in Washington.

This weekend, Harper showed that he doesn't understand this dynamic.

[Oilpatch could lose out in green fight](#)

For the first time in a dozen years, the oilpatch has a natural ally in Ottawa. But that rosy relationship may be tainted and it could leave the industry vulnerable as the government gears up to fight a green election that could be tough on a sector, one of the top emitters of greenhouse gases.

Concerns about the sector linger because of the campaign waged against Stephen Harper by oil and gas trusts over his government's decision to start taxing them as corporations in 2011. While there was sympathy across the board for the blow taken by the tax-advantaged companies and their investors, many believe the group's response was aggressive, counterproductive and naive.

"Their key messaging was all wrong," said one industry leader. "They should have mobilized groups that were extremely negatively affected by this decision. The lead [spokesman] had to be some 67-year-old retiree from Mississauga -- not Calgary billionaires."

[Zucker sees potential in income trusts](#)

Jerry Zucker thinks he has a nose for finding value -- that's why he sank more than \$1-billion into buying Hudson's Bay Co. And now he's found another place to park his money: Canadian income trusts.

Since Halloween, when Ottawa announced a tax crackdown on income trusts, the U.S. businessman has been quietly acquiring stakes in a wide array of offerings -- just as the prices for their units were dropping dramatically.

"We've been looking at the trust universe as a very attractive investment opportunity," said Robert Johnston, vice-president at Mr. Zucker's South Carolina company. "Some trust units have come off 30 per cent or more since the announcement by the Finance Department. . . . We expect there will be lots of activity in the trust space over the coming months."

[Husky delays oilsands strategy](#)

The senior energy company had been expected to link all the pieces together -- including potentially finding joint venture partners to upgrade and refine its oil in the

United States -- by the end of 2006.

But John Lau, 64, said his company hasn't yet made decisions on many aspects of its growing oilsands business and also wants to be confident about costs, so it doesn't duplicate the experience of other oilsands developers posting ever increasing price tags. One of the decisions that remains up in the air is which technology it will use to power its oilsands projects in Alberta.

Among those being considered are nuclear, gas, coal-fired generation, or using bitumen bottoms, Mr. Lau said. No commitments have been made, particularly on the nuclear option, which Mr. Lau said remains controversial.

"The reason for the delay are quite straight forward," Mr. Lau said in an interview yesterday. "Firstly, the technology is changing. Every company in oilsands [is asking] where is the gas going to come from? You have to look at alternative fuels, alternative energy. And secondly it's about the water supply. It's a challenge for most of the projects. Thirdly, it's labour costs. "The whole thing is uncertain. We are still analyzing various scenarios."

[Husky mulls nuclear option in oil sands](#)

Husky is the second major company after Total SA of France to openly discuss nuclear as an option for the oil sands. Last summer, a Calgary company called Energy Alberta Corp. began to market the nuclear option to oil sands companies in a partnership with Atomic Energy of Canada Ltd.

Husky is working on Sunrise's engineering plans, and the major push is to reduce reliance on expensive natural gas to power the generation of steam. Steam would be injected into wells at Sunrise to recover raw bitumen from below ground because the oil is too deep to be mined.

[Nuclear plan for oilsands 'imminent'](#)

A proposal to build nuclear power plants in the oilsands could be unwrapped within weeks, industry sources said yesterday.

"If you don't hear something from us within 90 days I'd be very surprised," Wayne Henuset, a founding partner with Calgary-based Energy Alberta Corp. (EAC), said in an interview.

"It started as a pie in the sky and it's just grown from there."

EAC, which signed an agreement with Atomic Energy of Canada Limited last summer to commercialize CANDU reactors in the oil industry, is a private company that includes Precision Drilling chairman Hank Swartout among its backers.

[Canned nuclear waste cooks its container](#)

The problem is that the radioactive waste damages the matrix that contains it. Many of the waste substances, including plutonium-239, emit alpha radiation, which travels for only very short distances (barely a few hundredths of a millimetre) in the ceramic, but creates havoc along the way.

A fast-moving alpha particle knocks into hundreds of atoms in its path, scattering them like skittles. Worse still, the radioactive atom from which the particle comes is sent hurtling in the other direction by the recoil. Even though its path is even shorter than that of an alpha particle, the atom is much heavier, and can knock thousands of atoms out of place in the ceramic.

All this disrupts the crystalline structure of the ceramic matrix, jumbling it up and turning it into a glass. That can make the material swell and become a less secure trap. Farnan says that some zircons that have been heavily damaged in this way by radiation have been found to dissolve hundreds of times faster than undamaged ones. So if the ceramic gets wet, there could be trouble.

[Costs, delays called threats to pipeline plan](#)

The \$7.5-billion Mackenzie Valley natural gas pipeline might not go ahead in its current form because of numerous delays and increasing costs, the head of the Canadian Energy Pipeline Association says.

"I'm increasingly skeptical whether the project will see the light of day in the current form," association president David MacInnis said.

Imperial Oil Ltd., the lead proponent of the project to bring natural gas in the Mackenzie Delta to northern Alberta, halted talks concerning federal aid for the proposal last June to recalculate its budget and determine how it could control escalating costs. A new cost estimate had been expected last fall, but it could be the end of March before Imperial has a figure, a company spokesman said.

On the regulatory side, National Energy Board public hearings began a year ago and wrapped up in December, ending in the awkward position of not being able to assess the project's economics without a new cost estimate. Hearings for the joint panel review looking at social and environmental questions will continue to April. The panel will eventually submit a report to the NEB but can't do so until a federal court case involving the Dene Tha First Nation of northern Alberta is settled. All in, a final decision on Mackenzie is at least a year away.

Mr. MacInnis said the federal government has to prepare for the possibility the pipeline is scrapped. He wants Ottawa to design a "major project management process" to simplify the complicated regulatory process for such proposals.

[Montreal woman seeks to sue gas companies over price hike](#)

A Montreal woman has asked a Quebec court for permission to launch a class action lawsuit targeting oil companies that increase gas prices in the province.

The plaintiff, Catherine Savoie, asked the court on Wednesday to give her the go-ahead to pursue the lawsuit on behalf of all Quebec motorists, who faced a 1.3 cent litre price

increase at the pumps on Jan. 1, 2007.

The lawsuit argues that four companies — Petro-Canada, Shell Canada, Ultramar and Imperial Oil — colluded illegally to raise gas prices as a means of offsetting the future cost of a "green tax" on gas that will come into effect later in 2007.

By raising gas prices now, companies stand to pocket an extra five million dollars a week in excess profits, until Quebec's levy takes hold later in the year, and that's not fair to motorists, said Bruce Johnston, a Montreal lawyer representing Savoie.

If the court decides to certify the lawsuit, it will seek damages of \$100 per motorist, Johnston said.

The Quebec Liberal government first proposed the gas levy in June 2006 as a measure to fund the province's climate change program. At the time, representatives from the petroleum industry vowed to protect their companies' bottom line by any means necessary.

[Housing starts slow as Prairies cool off](#)

Housing starts pulled back in December — even in the West — suggesting 2007 won't likely keep up with last year's pace, which saw home starts hitting their second-highest level in almost two decades.

In December, the seasonally-adjusted annual rate of housing starts fell to 211,500 units from November's 229,300 units, according to Canada Mortgage and Housing Corp.

CMHC has long predicted that last year's blistering pace of starts won't be matched this year. Economists echoed that view today.

“This reinforces the view that the housing market in Alberta is finally coming off the boil,” Jacqui Douglas, economics strategist at TD Securities, said in a note.

[Third of Canadians tap their RRSPs](#)

According to the report, withdrawals from RRSPs have on average been \$18,000. Of the people surveyed, 37% listed top reasons as to buy, build or get a mortgage for a new home. Paying down debt was listed as the top choice for 24% and covering day-to-day expenses was listed at 20%.

[Pessimism found in poll - U.S. fallout feared](#)

After four years of unbridled optimism, Canadians' outlook on the economy has nosedived, thanks mostly to concern about the United States, a survey revealed yesterday.

Only 30% of Canadians expect to see an improvement in economic growth this year, compared with more than 50% last year, while 19% expect the economy to worsen, compared with 11% last year, says the poll of 1,215 Canadians in mid-December.

A full 30% believe the economy is currently in recession, compared with 26% last year.

"This is the lowest level of economic optimism we have measured in 13 years," said Michael Marzolini, chairman of Pollara.

[Foreclosures increase 51 percent nationwide](#)

Foreclosures increased 94 percent last year to 157,417 homes in California, as homeowners struggle with fast-rising home payments and a slow-selling market, according to a Fair Oaks real estate investment advisory firm on Monday.

California had the most foreclosures filed nationwide, while Nevada had the largest percentage increase at 175 percent last year compared to 2005, according to ForeclosureS.com.

Nationwide, almost 971,000 foreclosure filings were reported last year, 51 percent more than the 641,000 in 2005, according to the annual report.

[Goldman cuts power shares before oil plunge](#)

It might be a better idea to thank Goldman Sachs, not the weather, for the recent plunge in oil prices.

While recent balmy temperatures have certainly played a role in last week's dip in oil prices, a lesser known, but equally powerful, move by Goldman at the start of the year might bear some responsibility as well.

Goldman cut the energy portion by as much as 50 percent in some of the sub-indexes that comprise the widely followed Goldman Sachs Commodity Index, tamping down moves to buy them by large investment funds who mimic Goldman's index.

The changes took effect this month and apply for all of 2007, a Goldman spokesman said.

Crude oil futures plunged 9 percent Wednesday and Thursday to \$55 a barrel, before settling Friday at \$56.31. The two-day decline was the sharpest since December 2004. The GSCI is influential because large institutional investors like pension funds and endowments invest according to its allocation model.

"If Goldman's model tells them to cut their energy exposure by half, they do it," says Warren Mosler, president and chief investment strategist of Valence Corp., a multi-billion dollar hedge fund.

[Q&A on the Psychology of Deflation](#)

I am amazed at the near universal belief that everyone seems to have in the Fed and the government. The arguments proposed and the comments made seem to imply that the Fed can pull off some sort of miracle bailing out consumers by causing wages to rise, property values to rise, and the stock market to rise, and to create enough jobs so that everyone can live happily ever after.

That is not exactly a fair statement, because some think the Fed will overdo it to the point of causing hyperinflation. Either way, people give the Fed far too much credit and intelligence, when history proves otherwise. Yes, the Fed has, for what seems like forever, been willing to blow bigger bubble after bigger bubble. Here is the key: It was able to do so because banks were willing to lend and consumers were willing to borrow.

It can't go on forever, simply because the ability to service debt at some point becomes impossible. The pool of real funding (savings) dries up, and financial speculation on its own accord stops being supportive of the real economy. Financial and asset speculations of this magnitude throughout history have never ended well. There were deflationary crashes in Japan, the Great Depression, the South Seas bubble, the John Law Mississippi bubble, Tulip Mania, etc. In each case, the bubble collapsed after sentiment changed toward speculation. Once sentiment changed, it was never again revived.

The root cause of the bubbles was a massive expansion of money and credit in conjunction with massive speculation by the public. Given that the cause of those bubbles was that expansion of credit and speculation, it is incredulous to believe that the Fed or the government can cure the problem by throwing still more money at it. That has never worked before in history, and it won't be different this time, either.

[Trans-Alaska Pipeline Restarted After Leak Plugged](#)

The trans-Alaska oil pipeline was shut down for about six hours Tuesday after workers found a slow leak on a bypass line near Coldfoot that dripped about 500 gallons of oil onto a gravel access road.

Alyeska Pipeline Service Co., which runs the 800-mile line, said it shut down the line at around 8:20 a.m. after a worker discovered the leak while doing routine maintenance and inspection.



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