



The Round-Up: February 16th 2007

Posted by [Stoneleigh](#) on February 16, 2007 - 3:11pm in [The Oil Drum: Canada](#)

Topic: [Site news](#)

Tags: [biofuel](#), [carbon trading](#), [carry trade](#), [climate change](#), [feedlaw](#), [housing market](#), [kyoto](#), [subprime loans](#) [[list all tags](#)]

[Canada, U.S. on course for LNG collision](#)

The Conservative government is refusing to allow huge liquefied natural-gas tankers to go through Canadian waters off New Brunswick to two proposed gas terminals in Maine because of worries of catastrophic accidents in the treacherously narrow passage.

Michael Wilson, the Canadian ambassador to the United States, said in a letter to U.S. energy regulators this week that Ottawa will refuse to allow the large tankers to go through the Canadian- controlled Head Harbour Passage to get to Maine ports....

....The latest cross-border battle will likely end up in an international court. While Canada claims it has exclusive jurisdiction over the Head Harbour Passage, the view of the U.S. government is that the waters are territorial and, under the United Nations' Law of the Sea Treaty, a country cannot deny foreign ships from passing through.

[Bid to kill Kyoto bill fails](#)

Opposition parties have forced through legislation requiring the Conservative government to respect Canada's commitments under the Kyoto accord, setting the stage for what could be a constitutional quagmire.

MPs voted 161-113 in favour of the Liberal bill Wednesday in a battle pitting the minority Tories against the opposition, the Senate, and the country's legal community.

The government has hinted strongly that it will simply ignore Bill C-288 – even if it is approved by the Senate and becomes law, as expected.

But constitutional experts have said the government has no choice but to respect laws passed in Parliament, and they've warned that lawsuits lie ahead if it fails to do so.

[Canada government relents, says will obey pro-Kyoto law](#)

"If and when that becomes law, the government would respect it. I'll just point out ... that the bill has no plan of action in it, the bill gives the government no authority to spend any money to have a plan of action," Harper told Parliament.

The opposition Liberals said Ottawa could be sued if it carried out earlier threats to ignore the law and they attacked what they said was Harper's contempt for Parliament.

"Is the prime minister of Canada now going to decide which laws he's going to respect and which laws he's going to break?" asked Pablo Rodriguez, the Liberal legislator who drew up the draft legislation.

"Is he going to throw the foundations of our democracy to the grounds and close Parliament? Is he going to say 'Democracy is finished, long live the dictatorship?'" he asked Parliament after Harper had spoken.

The law would give the Conservatives 60 days to come up with a plan to meet the cuts laid out by Kyoto -- reductions that Harper says would paralyze the Canadian economy. Canada is the largest exporter of energy to the United States.

[Gore disputes support for Tories on global warming](#)

Former U.S. vice-president Al Gore weighed into Canada's debate on global warming on Monday, urging the Harper government to set the record straight and stick with Canada's traditional leadership role on the world stage.

Gore - who was featured last year in *An Inconvenient Truth*, the popular documentary film about climate change - blamed the government for misleading Canadians into believing he had endorsed the Conservative plan.

"I understand last week Canada's minister of the Environment, Minister John Baird, mischaracterized comments I made last summer as praise for the Harper government's actions on global warming," Gore said in a statement.

"The comments I made were designed to encourage the Harper government not to abandon Canada's tradition of fighting above its weight class on the world stage as part of the Kyoto process."

[Ottawa to announce incentives for green cars](#)

Transport Minister Lawrence Cannon and Environment Minister John Baird are both scheduled to unveil details of investments in what will be part of an EcoTransport strategy during an appearance at a government awards ceremony for fuel-efficient vehicles, spokesperson Natalie Sarafian explained in an e-mail.

Following Prime Minister Stephen Harper's announcement last week that the government would soon introduce measures to help consumers buy fuel-efficient vehicles, several stakeholders and Conservative sources anticipate a tax incentive of about \$2,000 for cars such as hybrids introduced in the budget.

[Kyoto program 'gutted' by Tories](#)

The Conservative government has gutted a key office set up under the Kyoto protocol

that allows Canadian companies to offset greenhouse gas emissions by investing in green projects in developing countries, the Toronto Star has learned....

....The Conservatives have long complained about plans by their Liberal predecessors to invest in "hot air credits" abroad. The Tories also have criticized the idea that Canada could clean up the atmosphere here by funding environmentally sound projects in Russia or South America.

The Kyoto accord allows developed countries to trade emissions credits with other developed countries. It also allows developed nations to fund green projects in developing countries.

Canada's office was set up in 1998 to work on the latter initiative. The Kyoto tool is to help countries like China and India avoid building their economies in the way developed countries have done, with coal-based technologies, said Stewart Elgie, a law professor with the University of Ottawa's Institute of the Environment.

[Greenhouse gas action could hit 40% of Canadian stock market: study](#)

The study by Jeff Rubin and Benjamin Tal took note of the increasing likelihood of a North American market-based cap-and-trade system to reduce greenhouse gas emissions.

Such a system, already being developed in California and other states and proposed by prominent American federal politicians - would limit total emissions of carbon dioxide and force polluters to bid competitively for quotas entitling them to produce emissions.

Rubin and Tal observe that the oil and gas sector and utilities contribute almost 40 per cent of Canadian emissions that contribute to global warming. These industries, along with emission-heavy industrial processes such as metal refining, "would be prime targets of any Canadian cap-and-trade system."

However, utilities may be better positioned to pass along carbon costs than other sectors with less pricing power such as metal smelting or oilsands production, they say.

[Scientists sound alarm over melting Antarctic ice sheets](#)

The long-term stability of the massive ice sheets of Antarctica, which have the potential to raise sea levels by hundreds of metres, has been called into question with the discovery of fast-moving rivers of water sliding beneath their base.

Scientists analysing satellite data were astonished to discover the size of the vast lakes and river systems flowing beneath the Antarctic ice sheets, which may lubricate the movement of these glaciers as they flow into the surrounding sea.

The discovery raises fresh questions about the speed at which sea levels might rise in a warmer world due to the rate at which parts of the ice sheets slide from the land into the ocean, scientists said at the American Association for the Advancement of Science in San Francisco.

"We've found that there are substantial subglacial lakes under ice that's moving a couple

of metres per day. It's really ripping along. It's the fast-moving ice that determines how the ice sheet responds to climate change on a short timescale," said Robert Bindshadler, a Nasa scientist at the Goddard Space Flight Centre in Maryland, one of the study's co-authors.

"We aren't yet able to predict what these ice streams are going to do. We're still learning about the controlling processes. Water is critical, because it's essentially the grease on the wheel. But we don't know the details yet," Dr Bindshadler said. "Until now, we've had just a few glimpses into what's going on down there. This is the most complete picture to date about what's going on," he said.

[Campbell goes green in Throne Speech](#)

British Columbia is vowing to lead the country, and perhaps the continent, in combatting global warming with a breathtakingly bold program to slash greenhouse-gas emissions.

The 23-point program, even tougher in parts than Governor Arnold Schwarzenegger's vaunted green plan in California, was outlined in broad strokes yesterday during the Liberal government's Speech from the Throne.

"The science is clear. It leaves no room for procrastination. Global warming is real," Lieutenant-Governor Iona Campagnolo told the legislature, as she announced the government's commitment to reduce greenhouse-gas emissions in the province to 10 per cent below 1990 levels by the year 2020.

[B.C.'s green plan counts on forests in clean-up](#)

British Columbia has the natural tools in its rivers, forests and wind-swept fields to easily reach its target of clean electricity self-sufficiency by 2016, say energy experts.

However, Energy Minister Richard Neufeld said yesterday that B.C. will partly achieve its goal of slashing its greenhouse gas emissions by relying on its forests to scrub clean much of its carbon pollution.

Neufeld said the province is partly basing its plan on the controversial notion of counting the carbon dioxide ingested by its agricultural land and forests as an offset to its carbon emissions.

"What we're saying now is we got a standard, we got a target," said Neufeld. "Trees will be part of that sequestration process, so will agriculture."

Guy Dauncey, president of the B.C. Sustainable Energy Association, said he couldn't help but cheer on the government's energy initiative announced in Tuesday's throne speech.

But the notion of using so-called carbon sinks to offset the pollutants the province is generating is "intellectual dishonesty," he said.

[New rules threaten proposed coal projects](#)

Tough new regulations for coal-fired electricity plants have cast a pall of doubt over two proposed coal projects in the province, with one proponent saying yesterday he is "extremely disappointed" by the bold provisions.

But the requirements are likely to be welcomed by energy experts who have argued the coal sector needs a push to embrace cleaner, but more expensive, technology.

David Slater, president and chief executive officer of Vancouver-based coal miner Hillsborough Resources Ltd., which is pursuing a coal-fired project with U.S. energy company AES Corp., said his company had not yet decided what its response would be to the new requirements, which specify that any coal-fired electricity project would require 100-per-cent carbon sequestration in which greenhouse gases are injected back into the earth.

But given that such technology is still in the development stage, it's hard to see how proponents would plan, implement and finance carbon-capture systems by 2016, the deadline set in yesterday's Throne Speech for net-zero greenhouse-gas emissions from the province's electricity.

Crown-owned B.C. Hydro awarded two contracts for coal-fired plants -- which would have been the first in the province -- in its call for power last year.

[Alberta needs more cash for climate change: premier](#)

If the federal government wants to criticize Alberta over its emissions levels from the oil patch, it needs to pony up with more than per-capita investment dollars to find a solution, Premier Ed Stelmach said yesterday.

Stelmach said he is concerned about how much his province would get from a new \$1.5 billion federal environmental fund that is tied to population-based funding.

"If Ottawa is looking at Alberta in terms of (being) a major emitter, then of course we need more than just per-capita funding," the premier told reporters in Edmonton.

[Saskatchewan wants bigger cut of federal environment funds](#)

The provincial government wants a bigger share of Prime Minister Stephen Harper's new provincial funding program for greenhouse gas and air pollution reduction projects.

And with Saskatchewan' NDP government embroiled in a dispute with the federal Conservatives over the equalization funding program for provinces, Saskatchewan Finance Minister Andrew Thomson isn't happy Harper is linking the new program to the "fiscal imbalance" between the provincial and federal governments.

The new \$1.5-billion Eco-Trust and Clean Air Fund will see money distributed to the provinces on a per-capita basis, which means that Saskatchewan, with about three per cent of Canada's population, will likely be eligible for \$40 million to \$45 million.

But Thomson said the funding should be based on emissions, not on population.

Saskatchewan has the second-highest per capita greenhouse gas emissions in the

country and is responsible for about eight per cent of Canadian emissions overall.

[Reluctant Canada may lose revolutionary ethanol plant](#)

The world's first straw-based ethanol plant will be built abroad using Canadian technology unless Ottawa matches loan guarantees offered by the U.S. and Germany, says the company that developed the process.

"It's a bit of a horse race," says Jeff Passmore, executive vice-president of Iogen. The Ottawa-based company, with the help of federal funding, created the gasoline alternative that's touted as a key to pollution-cutting biofuels.

"We're looking at building a plant in Canada, the U.S. and Germany," Passmore said in an interview. "It's going to be a business decision."

[Cow Dung, Rotting Chickens Poised to Beat Oil, Natural Gas](#)

Speculators, including hedge funds, are replacing industrial companies as the biggest buyers of carbon credits, according to Greg Spencer, chief executive officer of Blue Source. "It's more about taking positions in a market that will appreciate significantly over time," he said.

[Feed Law Powers Germany to New Renewable Energy Record](#)

German farmers, homeowners and industrialists set a world record for the development of renewable energy in 2006. Using the country's pioneering electricity feed law, Germans invested more than U.S.\$10 billion in new sources of renewable energy last year, including wind turbines, solar panels and biogas power plants.

Germany installed an astounding 100,000 solar systems in 2006, representing 750 MW of solar-electric generation. This follows on the back-to-back record-setting years of 2005 (750 MW), and 2004 (600 MW).

Germany's feed law permits homeowners and farmers to connect their solar power systems to the grid and pays them a fair price for their electricity. This simple system has led Germany to world leadership in wind, solar and biogas electricity generation. Germany operates more wind generation, more solar systems and more biogas plants than any other country on earth.

Renewable sources of energy installed through Germany's feed law produce about 50 terawatt-hours (TWh or billion kilowatt-hours) of electricity per year, or nearly 10% of German electricity consumption.*

Hermann Scheer, the architect of the German feed law, begins a North American book tour February 15th in San Francisco. Scheer, a member of the German parliament and an outspoken advocate of solar energy, is the author of *Energy Autonomy: The Economic, Social, and Technological Case for Renewable Energy*.

[The Ocean Ranger 25 years on](#)

The hard lessons that cost 84 crew members their lives and destroyed what was the world's largest semi-submersible rig have made hundreds of other offshore rig employees safer, with new safety equipment, more crew training and updated government regulations, says Howard Pike, chief safety officer for the Canada Newfoundland and Labrador Offshore Petroleum Board:

-Every crew position on a rig now requires specific training qualifications and competency assessments. The training is mandatory and covers everything from a basic survival course on how to evacuate a rig properly to drills on all qualifications necessary for the position.

-Every rig is now required to have two survival suits on board for every crew member. The marine abandonment immersion suits are specially designed for icy waters. Many of the men who jumped into the lifeboats off the Ocean Ranger were wearing only life jackets and light clothing.

-Transport Canada regulations now require every rig to have lifeboats that can hold twice the number of crew members that are on the rig. The lifeboats must be completely enclosed, motor-propelled, at either end of the drilling rig, perpendicular to the rig and clear of any obstructions for launching.

-There must be one life raft per crew member on board.

-Each rig needs to have at least one standby rescue vessel. Traditionally, these crafts were used only to carry extra supplies and fuel out, but they now must also have a fast rescue craft, medical supplies, and personnel who are trained to deal with emergencies and casualties.

[EnCana oilsands targets set high](#)

EnCana is ramping up a new business in the oilsands that involves splitting the job of building an integrated operation with ConocoPhillips.

Under its agreement with the Houston-based company, EnCana is responsible for producing bitumen from its two thermal projects in Northern Alberta and blending it with synthetic oil to ease transportation in pipelines, while ConocoPhillips is responsible for retooling its Wood River, Ill., and Borger, Tex., refineries, upgrading and refining the bitumen, and selling it to customers in the United States.

EnCana estimates the partnership can produce oil, upgrade it and refine it at a cost of US\$35,000 per flowing barrel, an industry measure of capital intensity, compared with the current range for integrated projects of \$90,000 to \$120,000. Projects located entirely in Alberta have been struggling with labour and equipment shortages that have led to cost escalations.

[Flaherty says Dion should be 'embarrassed'](#)

Mr. Dion and Liberal finance critic John McCallum unveiled this week their party's alternative to the Conservative trust tax plan. Despite months of criticizing Mr. Flaherty for taxing trusts, the Liberals proposed a 10% tax on trust distributions. Canadian residents, however, would be eligible for a refund. The Liberal proposal also envisages a ban on new trust formations, but would entertain exemptions if particular sectors met a number of conditions.

Mr. McCallum said his plan could return as much as two-thirds of the losses suffered by investors since the trust tax was announced on Oct. 31.

Speaking to reporters yesterday, Mr. Flaherty ridiculed the Liberal proposal, noting it was the third time the Liberal Party, since 2004, has developed a different take on how to handle the once booming sector.

[Biofuels Startup Built on Hype, Investors Say](#)

Xethanol Corp. (AMEX: XNL) is facing an uprising from shareholders who say the New York-based biofuels company is nothing but hype after the company raised \$34 million to produce ethanol fuel that founder Christopher d'Arnaud-Taylor said would use anything from wood chips and other waste substances to make a cheap, clean fuel to replace gasoline.

In the first half of 2006, Xethanol's stock surged to a high of \$15 from \$2.65, putting its market cap at \$245 million. That was at a time of soaring oil and gasoline prices when stocks in the biofuel market were the hot ticket on Wall Street.

[Bank's mortgage warning could be bad sign](#)

HSBC said that it significantly overestimated the ability of people to make payments on some risky mortgages. Many homeowners have been struggling to handle what are called subprime mortgages--home loans that go to people with risky credit histories, weak pay and too much debt to qualify for standard mortgages.

The HSBC announcement also reflected concerns about home equity loans, and adjustable rate mortgages that are repriced with interest rates that some homeowners cannot afford. With defaults on loan payments rising, HSBC is setting aside 20 percent more money than previously thought necessary to cover loans that might not be repaid, putting the total at more than \$10 billion.

The news was especially unsettling to bond investors in the subprime market.

"When one of the largest banks in the world adjusts for defaults, it causes you to worry and wonder if maybe this is going to be worse than we expected," said Bryan Whalen, managing director of Metropolitan West Asset Management. "You wonder who's next, whether this will snowball and get bigger," with more lenders encountering trouble.

[Home Lenders Plunge as More Subprime Mortgages Sour](#)

"There's a lot of camouflaging going on in credit quality," said analyst David Hendler at CreditSights Inc. in an interview late last month. "We're getting the sense in this shop that this is more than normal deterioration, that it speaks to deeper difficulties."

[Sub-prime loan market shaken up](#)

The shakeout in the sub-prime industry began last year as housing prices leveled off and interest rates rose, curbing demand for loans. At first, some companies loosened lending standards to keep loan volume high, a tactic that has produced a wave of early loan defaults. More recently, companies such as New Century have tightened their loan policies to reduce their exposure to mortgages that could go sour.

As part of the fallout, marginal borrowers who snapped up loans with initial easy-money terms in 2004 and 2005 will find it impossible to refinance this year to avoid sharply higher payments, especially with home prices flat or lower in many areas, industry analyst Zach Gast said.

As much as \$800 billion of adjustable-rate mortgages will reset to higher payments this year, and 1 of 11 home loans is both adjustable and sub-prime, according to the Mortgage Bankers Assn.

"There could be a good chunk of borrowers with nowhere to go to get loans," said Gast, who follows the industry for the Center for Financial Research and Analysis, a Rockville, Md., forensic accounting and due diligence firm with mutual funds, hedge funds and insurers as clients.

"It means a lot of people are going to lose their homes."

[Mortgage defaults: Latest woe for housing](#)

"Investors in lower-rated (mortgage securities) will demand higher yields, or alternately they'll pay less for the securities, which will force the underwriters of this product to demand higher quality mortgage loans."

McMahon and other experts say either move is likely to stop some potential home buyers from getting the financing they need to buy a home - money they might have been able to get in recent years.

"At the margins what this is doing is making mortgage credit less accessible to some people," said Bose George, an analyst with Keefe, Bruyette & Woods who follows New Century and other subprime lenders. "Maybe it's a cohort that shouldn't be borrowing in the first place. But it will mean less money to buy homes."

[Calm Before and During a Storm](#)

High on Mr. Geithner's to-do list is understanding and monitoring the \$26 trillion credit derivatives market — twice the size of the United States economy — the fastest-growing financial market there is. Its explosive growth has greased the wheels of the global

economy, increasing liquidity, spreading risk and minting money for Wall Street along the way. But it has surged at a time when volatility has been low, debt has been historically cheap and defaults have been virtually absent. When this market gets tested, no one knows for certain how it may react.

Even the heads of some of the world's biggest banks seem overwhelmed by the size and complexity of credit derivatives. "It makes my head swim," said Kenneth D. Lewis, the chief executive of Bank of America.

["Hedge Funds Have to Open their Books to Regulators"](#)

There is a lot of leverage in the business which means they don't just use the money they have but borrow money, so they use multiples of their own capital. The risk is what the size of the positions are and what happens in those positions if all of a sudden something outside impacts on the market to change it or if the liquidity begins to dry out. That changes the ability to get in and out of markets.

[Greenspan says economic growth means working longer](#)

Generally, he was upbeat about the stability of the world's most powerful economy, saying capital markets seem ready to finance a massive U.S. current account deficit. Even if some foreign central banks start selling U.S. dollar reserves, he said there is enough liquidity in the world these days to keep the global economy running smoothly. "We can absorb the adjustment," he said.

He also said he believes the worst of the downturn in the U.S. housing market is behind us.

He did however warn that oil supply is precarious and susceptible to disruption. That's because undeveloped reserves take so long to bring into production that even small troubles mean large movements in prices. "We're treading on the edge in which any minor catastrophe creates a spike in prices," he said. He added that a sharp turn in supply would have "a very major impact on global economic activity," because the world is "addicted to oil."

[S.E.C. Seeks to Curtail Investor Suits](#)

The Securities and Exchange Commission has begun to take steps on two fronts to protect corporations, executives and accounting firms from investor lawsuits that accuse them of fraud.

Last Friday, the commission filed a little-noticed brief in the Supreme Court urging the adoption of a legal standard that would make it harder for shareholders to prevail in fraud lawsuits against publicly traded companies and their executives.

At the same time, the agency's chief accountant told a conference that it was considering ways to protect accounting firms from large damage awards in cases brought by investors and companies.

[Exotic currency carry-on could hurt foreign-dollar borrowers](#)

House buyers in eastern Europe have recently developed a taste for exotic home finance. Bankers say a significant slice of new mortgages in Hungary are being issued in Swiss francs. At the same time, households in Latvia and Romania have developed so much enthusiasm for borrowing in yen that the trend has provoked surprise - and unease - from central bankers half a world away in Tokyo.

The obvious attraction is the interest rate. Switzerland and Japan have among the lowest money market rates worldwide, giving investors a discount on their mortgages worth as much as 5 percentage points a year.

Home buyers may not be aware that, in taking out such an attractive loan, they are becoming global "carry traders", rubbing shoulders with hedge fund managers and bond dealers who have made tremendous profits borrowing in currencies where interest rates are low and investing in those where they are high.

But life for a carry trader is becoming increasingly fraught with risk, exposed to everything from Japanese inflation to the course of the New Zealand dollar, not to mention the Latvian mortgage market. If the yen or the Swiss franc rallied suddenly, if US interest rates fell, or any number of arcane and unpredictable events occurred somewhere in the world, the carry trade - which is estimated to be operating at unprecedented volumes - could unwind, with drastic consequences.

That could then spark a huge rally in the yen or Swiss franc, leaving everyone who borrowed cheaply in these currencies owing far more than they had bargained for and potentially facing hefty losses on their investments.

[The Plot Against Mexican Corn](#)

World corn prices are currently at an all-time high due to burgeoning interest in ethanol production as a petroleum substitute. In Mexico the price of corn has been pushed upwards by the cost of diesel and petrochemical fertilizers and pesticides despite the fact that Mexico is a major oil producer. Crop failures due to drought, flooding, and even ice storms have contributed to the price surge. But whatever the immediate causes, the dismantlement of government agricultural programs and the brutal impacts of the North American Free Trade Agreement have deepened the crisis in Mexican corn production.

Competing with highly subsidized U.S. farmers is driving their Mexican counterparts into bankruptcy. Whereas south of the border, guaranteed prices for farmers' crops is a thing of the past, corporate corn growers north of the Rio Bravo can receive up to \$21,000 an acre in subsidies from their government, enabling them to dump their corn over the border at 80% of cost. The impact of this inundation has been to force 6,000,000 farmers and their families here to abandon their plots and leap into the migration stream, according to a 2004 Carnegie Endowment study.

This assault on poor farmers down at the bottom of the food chain will be exacerbated at the end of 2007 when all tariffs on U.S. corn are abolished. Meanwhile President Calderon seeks to tamp down tortilla prices by importing up to 2,000,000 duty-free tons to augment what Mexican farmers can or cannot produce. Such a solution is

guaranteed to drive more farmers off the land.

[Global methane cycles in flux](#)

Methane, which is 23 times more powerful than CO₂ as a greenhouse gas, is emitted from numerous sources, including wetlands, cows, and thawing arctic permafrost. But the gas is also consumed by microbes and stored geologically, making its cycles hard to pinpoint, despite several decades of research. Recent reports have documented tropical-upland sources and reassessed emissions from arctic lakes, adding to previously known natural emissions. People keep finding sources, but nobody's finding the sinks, says Patrick Crill, a biogeochemist at Stockholm University.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](#).