The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: April 20th 2007

Posted by Stoneleigh on April 20, 2007 - 12:41pm in The Oil Drum: Canada
Topic: Site news
Tags: bees, biofuel, bulk water exports, cascadia, climate change, credit derivatives, income trusts, integration, kyoto, oil sands, private equity, royalties, wind power [list all tags]

Income trust imbroglio

> On April 9, The Globe and Mail reported that Flaherty's tax changes, which were supposed to have brought Ottawa more revenue, are having the opposite effect. Not only is revenue lost instead of gained, Canada is losing ownership of its resources in the process, and investment in the energy sector is decreasing. "It would only take slightly more than 15 per cent of the trust sector to be bought out by foreign private equity, and non-Canadian firms, before Ottawa was losing annual tax revenue equivalent to what it said eluded its grasp before the trust tax."
>
> In other words, Ottawa could lose $5- to $6-billion annually. The article quotes Sandy McIntyre of Sentry Select Capital Corporation: "If so-called tax fairness was intended to accelerate the sale of Canadian companies to foreign entities, then it is a success. If it was intended to increase Canadian tax revenues, it is a failure."

Foreign money snags 3 more trusts

> Three more income trusts were thrust onto Canada's endangered list in less than three hours yesterday, raising to 16 the total number of trusts set to disappear with a value of more than $9-billion since Oct. 31.
>
> A few hours after announcing plans to buy security firm Voxcom Income Fund, UE Waterheater Income Fund found itself on the receiving end of a $1.74-billion bid from Alinda Capital Partners LLC, a little-known infrastructure firm in New York. A mere 20 minutes before that, Australia's Macquarie Bank Ltd. put forth an offer to buy Clean Power Income Fund.
>
> Analysts and investors believe the furious pace of takeover activity is not about to ease. And the blame, they insist, rests with Ottawa's decision to clamp down on trusts.
>
> "These are big-league global players who do serious homework and they are plunking down billions of dollars in cash," said John Priestman, managing director of Guardian Capital Group Ltd.
>
> "They have huge piles of money and they are looking for somewhere to put it. If the legislation does not change, we are going to see more of these deals in the coming months."

No shortage of listless targets for takeovers - Canada is full of candidates for privatization

"With the pot of cash growing substantially faster than the ability to invest, they need to either move further up the market cap ladder, or convince large cap companies to start selling off divisions that are similar in size to small/mid caps," said Karen Olney, equity strategist at Merrill Lynch, in a note to clients.

She added that, on a global basis, private equity is sitting on a potential US$660-billion. Using leverage, that gives these investors a whopping US$2.2- trillion worth of buying power over the next three years. That's enough ammo to take out all 279 companies in the S&P/TSX composite index with plenty left over to grab General Motors and Ford.

Of course, it pays to be more focused in your takeover possibilities, so here's a theme worth contemplating: Any company whose fortunes are sagging, whose shares are going nowhere and whose shareholders are growing restless is a candidate for privatization. The good news - Canada has no shortage of them.

Russia calls on Canada to board Bering tunnel

The ambassador, who was a senior Foreign Ministry official during the earlier discussions, said he is now optimistic that the Bering Strait tunnel will be built.

"We have the will, we have the money, and we have the capacity," he said.

"But we need Canada aboard" because the intercontinental train route would go through British Columbia.

Proponents of the project held a press briefing in Moscow this week, ahead of a conference next week that will be attended by supporters from Alaska, as well as Russian officials.

Mr. Mamedov said the rail link would provide commercial freight deliveries from Asian markets to North America, and back again.

It could include energy pipelines that would feed Russian oil and/or natural gas into U.S. markets, but the Russians are already committed to build pipelines to China and are constructing liquefied natural gas facilities in the eastern Arctic to ship natural gas to international markets.

Baird tells senate Kyoto would wreck economy

The environment minister said that if C-288 became law, every Canadian family, business and industry would have to reduce their greenhouse gas emissions by one-third starting in just eight months.

> "There is only one way to make this happen, the government would need to manufacture a recession," Mr. Baird warned.
>
> He went on to outline some of the costs that he says would be borne by the entire economy and that would trickle down to every single Canadian.
>
> Electricity bills, heating and gas prices would soar, businesses would have to scale back or cease production and that would lead to job losses for Canadians, according to Baird's report.

[Kyoto report sparks heated debate in Commons]

> Baird urged the Senate to reject a private member's bill tabled by the Liberals to force the minority government to comply with its Kyoto obligations of reducing greenhouse gas emissions by 6% below 1990 levels, citing figures from the government report that warned the economy could shrink by 6.5% under such a scenario, driving up the cost of electricity and gasoline by more than 50%, and causing nearly 300,000 Canadians to lose their jobs.
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> "This might not seem like much of a sacrifice for the opposition parties that united to pass Bill C-288 in the House of Commons, but for the government, these numbers are simply unacceptable," Baird said.

[Waste of resources]

> Now, in theory, Environment Minister John Baird did precisely what was required under the terms of a Liberal MP's private motion passed by opposition MPs a couple of months ago.
>
> But the unwritten intent of the document was not to serve as a realistic foreshadowing of Kyoto's ramifications, but to inflict ridicule on Liberal opponents who support the treaty.
>
> His scenario calls for a $195 per tonne carbon tax, which both leading parties have vowed not to introduce. It foresees a $6-billion annual spending spree on international carbon credits, which the Conservatives have insisted they would not tolerate.
>
> What's worse, the projection splices apocalyptic policy to frozen-in-time behaviour. There's no allowance in the economic model for free enterprise to react or human behaviour to adapt to dramatically new policy circumstances.

[Unchecked global warming would spawn unparalleled depression, Suzuki warns]

> One of the country's best-known scientists and environmentalists is warning that the world economy will be devastated if governments don't act quickly and decisively to curb global warming emissions.
>
> A day after the federal government decried the economic costs of meeting Kyoto

targets, David Suzuki referred to a British study as he predicted five to 20 per cent of the economy will "disappear" if temperatures are allowed to rise just a few degrees.

Suzuki, who just completed year-long, cross-country consultations on the issue, says unchecked global warming will cost the economy more than the two world wars put together and bring about a global depression, "the likes of which we have never ever seen."

A Conservative government study released Thursday says the Kyoto emissions-cutting targets for Canada could be met only by introducing a massive $195-per-tonne carbon tax that would wipe out thousands of jobs and undercut Canadians' quality of life.

Energy-rich Alberta forecasts C$2.18 bln surplus

Alberta, which claims the lowest income taxes in Canada and has no provincial sales tax, said it will further cut taxes. The government said personal taxes will be lowered by C$200 million as it raises tax credits for donations to charities, spending on education and personal deductions.

Business taxes will be shaved by about C$22 million but the government will raise tobacco taxes 16 percent, or C$5, to C$37 per carton of 200 cigarettes.

Much of the government's revenue comes from the province's red hot oil and gas sector, particularly the oil sands, which contain oil reserves second only to Saudi Arabia's.

The province has launched a review of the royalties paid by oil sands developers. It said it would not match a federal government plan to remove a break that allowed the sector to defer taxes, at least until the review was complete.

"Albertans must receive a fair share," Oberg said. "Meanwhile, we must preserve an internationally competitive oil and gas system."

Alberta forecast its royalties from coal, oil and gas production and payments for lands to total C$10.26 billion, down from an expected total of C$11.7 billion last year, as it slows the pace of lease sales in the oil sands region.

Alberta budget comes with deficit warning

The province is spending more but making less — and saving very little.

Mr. Oberg called it the "price of prosperity" and his budget doles out an additional $3.5-billion in fiscal 2007-08 compared with a year earlier — a 12-per-cent increase. That heady hike comes as revenues are expected to fall by 5 per cent or $1.7-billion, mostly because of declining oil and natural gas money, a trend that is projected to continue.

Alberta is still budgeting for a surplus — $2.2-billion — but it isn't putting a single penny of its non-renewable resource money into its long-term savings plan, the Heritage Fund. About $300-million generated by the fund is being reinvested but the dollars represent less than one per cent of the budget's $35.3-billion in revenue, of which oil and natural gas accounts for $10.3-billion, about a third.

In his budget speech, Mr. Oberg spoke hopefully of a bright future but warned that declines in energy dollars will be a big challenge for Alberta.

[Alberta is not getting its fair share of oilpatch wealth, suggests provincial report]

Royalty reviews conducted by the Alberta government suggest the province is not receiving its recommended take from the oil and gas industry, and predict oilsands royalties will be the same in 2020 as today -- despite production nearly tripling. The government documents, which were quietly tabled this week in the legislature, also note Alberta's royalty rates lag behind some key U.S. states and that "industry returns in Alberta are among the highest" in the world despite large unit costs and small pool sizes. "Certain bits of that information would indicate to me that a royalty review is timely," Energy Minister Mel Knight, left, told the Calgary Herald. "Let's ensure Albertans get a fair share."

[Alberta losing 'billions' in royalties]

The Stelmach government has launched a public review of the royalty and tax structures for conventional oil and gas, the oilsands and coal bed methane. The panel is scheduled to report back to Finance Minister Lyle Oberg by early fall. Recent internal reports indicate the government's royalty structure could use tinkering.

A December 2005 report titled Prosperity for Our Future Generations says Alberta Energy "estimates future oilsands royalties will be in the order of $1.2 billion when production reaches 3 million barrels per day in 2020, essentially the same as the current value for 2004/05."

The documents attribute the "relatively low royalty" to the ability of oilsands producers Syncrude and Suncor to switch the base for royalty valuation from upgraded synthetic crude oil to bitumen, as per agreements implemented in 1997.

The internal reviews found that Alberta's royalty take was roughly on par with some U.S. states, but significantly lower than that of Texas -- the state that Knight said is likely the best to be compared with Alberta.

[Oilpatch eyes neighbour]

By oil sands measures, the core sample plucked from 200 metres below a spindly Jack-pine forest last month was a beauty. Saturated with bitumen, the brownish, one-metre cut, part of a 20-metre oil sands zone, smelled like fresh asphalt. The sand was as warm and homogenous as that of a Caribbean beach.

But it was not from Alberta. The core was unearthed in northwest Saskatchewan. In fact, it was one of 174 brought to light over the past two winters by drilling crews working for Oil sands Quest Inc., a junior oil sands company that is well on its way to demonstrating that a rich sliver of the Athabasca basin, centred in the Fort McMurray area of northeast Alberta, spills over into this neighbouring province.

> If its aggressive exploration program shows there's enough of the stuff to support a commercial project, Saskatchewan could be producing oil from its first multi-billion-dollar in-situ oil sands project by the middle of the next decade.

[Big biofuel plant to be built on Canadian Prairies]

> North America's biggest biofuel refinery will be built in central Alberta near the town of Innisfail, and could be producing fuels in the third quarter of 2008, the plant's developers said on Tuesday.
>
> The C$400 million ($354 million) complex will be able to produce 378 million liters (100 million gallons) each of ethanol, canola oil and biodiesel, said private equity firms Riverstone Holdings and Carlyle Group and privately held Dominion Energy LLC.

[Alberta turns to natural gas after wind lessens reliability]

> Alberta power utility Enmax Corp. said yesterday it is building a huge new power station in Southern Alberta fired with natural gas, partly to help boost the provincial grid's reliability after Alberta's aggressive expansion into wind energy made it vulnerable to power disruption.
>
> "We now have so much windpower generation that we need to fall back on reliable sources of power," said Peter Hunt, an Enmax spokesman....
>
> ....Alberta expanded into windpower generation aggressively since deregulating its electricity industry eight years ago. With more than 4% of its power coming from wind farms in the southern part of the province, it is the national leader in the green-energy source.
>
> But the growth turned out to be too much of a good thing and the provincial grid operator, Alberta Electric System Operator, slapped a ban last April on the construction of any more wind farms until the reliability issues are resolved.

[Ontario turns out the lights on inefficient bulbs]

> Ontario will ban the sale of inefficient incandescent light bulbs by 2012, a move that follows in the footsteps of Australia, the province said Wednesday.
>
> The government estimates that replacing the 87 million incandescent bulbs in use across Ontario with more efficient bulbs would save six million megawatt hours every year - enough to power 600,000 homes.
>
> Changing to more efficient bulbs is also the equivalent - in terms of greenhouse-gas emissions - of taking 250,000 cars off the road, said Ontario Environment Minister Laurel Broten, who announced the move along with Energy Minister Dwight Duncan on Wednesday morning.

[Two Faces of Housing Panic: Schadenfreude and the Lender of Last Resort]

> It has been said that divided responsibility is no responsibility. We witness this in the moral hazards that permeate our society. For example say an accident will cost you $1,000 and your insurance is $900. Then there is really little incentive to avoid the accident since the difference is marginal. Subsidizing anything makes it more popular, it is a law of economics. For examples unemployment benefits can be seen as a moral hazard as well; in general people are less inclined to find a job if they are paid for not getting one. These are just minor examples of the moral hazard problem. But currently the housing bubble is in one of the largest moral hazard problems. There is this unstated assumption that housing will never go down because of Government Sponsored Entities picking up the flack if a major bust would occur. Sort of like the FDIC insurance you have at your local bank. By instilling this confidence people loaded up their money back into banks because if the bank were to go down, the government would be there with a check to bail them out. This hazard works in some cases but is never black or white. For example, do agents lose any skin if your house tanks 20% right after they get their commission check? Does the broker really worry about foreclosure since the lender now holds the note? Or does the lender really fret about losing declining values on homes if they feel that the government will be there to bail them out on bad loans should foreclosures surge? We are at this stage in the game because a moral hazard, if taken to the extreme will cause a major crisis.

[At the risky end of finance]

> So far credit derivatives have proved a triumph of the financial sector's ingenuity. By dividing the bond market into digestible chunks, they have increased investors' appetite for corporate debt. That may well have lowered the cost of capital-good for the economy, since it should allow companies to invest more over the long run.
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> But credit derivatives have yet to face a really bracing test. They have grown in a time of low interest rates and narrow credit-spreads (an extra yield over government bonds to offset risk). Recent problems in America's "subprime" mortgage market (for borrowers with poor credit ratings) are a reminder that the sun does not shine for ever. What will happen when monetary policy is tighter, with interest rates increasing and spreads widening?

[A Chronicle of America's Very Great Depression]

> The structural weakening of the US is therefore both the cause and consequence of the global systemic crisis, international trends directly influencing the US domestic situation. At this stage, LEAP/E2020 researchers identify that two aspects of this very great depression are now established and emerge clearly from the current statistical, economic, financial and strategic chaos:
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> I- A historical reversal of global financial balances: For the first time since 1913, the US lost their status of world's largest financial centre
>
> II- An implosion of the US society: The middle class is sacrificed between the endless collapse of housing prices and a revenue disparity ratio now above that of 1928.

American Dream Now a Nightmare for Millions

> A 2004 analysis of data by the US Census reports that 60 million Americans now live on less than $7 per day. That's one in five in the U.S. living on less than $2,555 per year. At the same time, the richest 1 per cent now garners about 16 per cent of national income, double what they earned in the 1960s.
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> While global income inequality is probably greater than it has ever been in human history, with half the world's population living on less than $3 per day, and the richest 1% receiving as much as the bottom 57%, the fact that so many Americans are living on so little, is particularly confounding.
>
> The so-called wealthiest, most abundant nation on Earth now has the widest gap between rich and poor of any industrialized nation. In light of the fact that one dollar spent in the Caribbean, Latin America and Asia buys what $3 or $4 does in the U.S means the quality of life for tens of millions of Americans is now on a par with huge populations living in the developing world.

US government siphons off Social Security, other trust funds

> Total Federal Government debt at end FY 2006 was $8.5 trillion, according to the.Federal Debt Report. Of that total, according to the Treasury Dept., $3.6 trillion was owed to trust funds, because the general government siphoned-off all surpluses that should have been kept in those trust fund accounts for specific use - - like employee and senior pensions. After siphoning off trust funds for other uses they placed non-marketable IOUs in the trust accounts instead of marketable assets - - with no budget to pay-back the trust funds.
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> Trust funds include many different special trust accounts: such as the social security trust fund, the federal employee retirement fund, federal hospital trust fund, railroad retirement fund, military retirement fund, employee life insurance fund, etc.
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> The practice of siphoning-off trust fund surpluses to spend on non-trust stuff is a way of camouflaging general government deficit spending, making it appear to be in surplus when it's really in deficit - - - or making it appear that a huge deficit is just a modest deficit. Politicians like this practice, but such is dangerous to the financial health of future retirees and our young generation - - and such undermines citizen trust in government.

Leaked document reveals bulk water exports to be discussed at continental integration talks

> Titled the "North American Future 2025 Project," the initiative being led by the U.S.-based Center for Strategic and International Studies, the Conference Board of Canada and the Mexican Centro de Investigación y Docencia Económicas calls for a series of "closed-door meetings" on North American integration dealing with a number of highly contentious issues including bulk water exports, a joint security perimeter and a continental resource pact.
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> According to the document, a roundtable on the "Future of the North American

Environment," is planned for Friday April 27 in Calgary, and will discuss "water consumption, water transfers and artificial diversions of bulk water" with the aim of achieving "joint optimum utilization of the available water."

"This is just the latest in a series of closed-door meetings that grant the business sector privileged access while shutting out the public," says Maude Barlow, national chairperson of the Council of Canadians. "The document is damning not just because it outlines a process that lacks transparency and accountability," says Barlow, "but also because of what is being discussed by governments and so-called corporate stakeholders."

Council of Canadians challenges Environment Minister on bulk water exports

The citizens' advocacy group obtained the document produced by the Centre for Strategic and International Studies, a prominent Washington-based think tank last week. It revealed that government officials and business leaders from Canada, Mexico and the United States plan to discuss bulk water exports in a closed-door meeting in Calgary on April 27, as part of a larger discussion on North American integration.

"Minister Baird's claims that current legislation prohibits bulk water exports are inaccurate," says Maude Barlow, National chairperson of the Council of Canadians. "The provincial accords he mentions are voluntary and can be broken at any time. The so-called prohibition on bulk water exports contained in the 1909 International Boundary Waters Treaty Act (IBWTA) only applies to waters that are shared with the U.S. and does not apply to what the U.S. is really after - water from Canada's North."

Water Most Precious Commodity of 21st Century

In the United States alone, there are 70,000 miles of ageing pipeline and pumping stations - all of which are in dire need of updates and repairs.

And this isn’t just affecting the United States anymore…the world population has tripled over the last century, and world water use is up six-fold. And since the water infrastructure has not kept up with demand, water shortages have been plaguing cities in China, Saudi Arabia and Algeria.

In fact, an article in today’s LA Times points out that “‘Western Algeria had running water only one day out of every 18 at the peak of the crisis, in 2002. The rationing also affected Algiers,’ said Christopher Gasson, publisher of Global Water Intelligence. ‘At that point, water became a political priority, and the government is now investing heavily in desalination,’ he said.”

“The emerging water crisis gets more and more attention with each passing month,” says our resident ‘blue gold’ expert, Chris Mayer. “It is hard to ignore the billions of dollars needed to fix the world’s water infrastructure - things like replacing leaking water and wastewater pipes.

The Current, April 18th: Part 3 - An Interview with Chalmers Johnson

It is the most powerful nation in history and it has the most powerful army in the world. Its economy has surprised the doomsayers many times. It's home to some of the best and the brightest and it polarizes opinion in the rest of the world.

From the democracy that it celebrates to the military might that it wields, some argue that the U.S. is less of a Republic these days and more of an empire. And that, says Charlmers Johnson, means Americans have some decisions to make if they don't want their country to go the route of fallen empires.

Chalmers Johnson has been writing about this tension over the U.S.'s global influence for years now. His new book Nemesis: The Last Days of the American Republic completes a trilogy on - what he calls - the American Empire. He joined us from his home in California.

Continentalism of a Different Stripe

Of course, trade liberalization advocates (on both sides of the border) have long maintained that Canada, the US, and Mexico ought to expand and deepen the North American Free Trade Agreement (nafta), further integrating their respective economies while maintaining their national sovereignties. However, many Canadians deeply oppose strengthening nafta, arguing that Canada is already being absorbed into the larger US economy and is losing its political sovereignty in the process. These Canadians also worry that "nafta+" will mean having to go along with the dominant American ideology, with its emphasis on an older American Dream, the central tenets of which are at odds with Canada's deeply held cultural and social values. They fear that the new "continentalism" is merely coded language for erasing the forty-ninth parallel, having a customs union, a common currency, and a fully integrated economy protected by continental security agreements, including President Bush's missile defence initiative. In short, they fear that it is a front for a twenty-first-century high-tech American colonialism designed to grab hold of Canada's rich resources and remake its citizenry in the American image.

Cascadia: More than a dream

Cascadia's guiding principle today isn't nationhood but what might be best called regionhood -- the sense that Alaska, the Yukon, B.C., Alberta and the states of Washington, Oregon, Montana and Idaho -- often share similar regional goals and ambitions. Cascadians may be in separate countries, states and provinces. They often have different national agendas. But, the thinking goes, in an age when centralized governments are often devolving their powers, they often share similar agendas. In Cascadia, these range from environmental issues, a heightened sense that their collective futures are tied to the Asia-Pacific and a desire for more autonomy from federal governments that are thousands of kilometres to the east, in Ottawa and Washington, D.C., and often out of touch with the big questions to the west.

Why are Niagara's bees dying?

> The sudden unexplained loss of millions of bees in the Niagara region up to 90 per cent in some commercial colonies has prompted Ontario beekeepers to ask experts at the University of Guelph to investigate.
>
> The move comes amid the mysterious disappearance of millions of bees in the U.S., in a phenomenon so unusual that it has spawned a new phrase "Colony Collapse Disorder."
>
> In Canada, the problem seems to be confined so far to the Niagara region but is still early days for beekeepers in the West, who won't know the extent of the damage until they unwrap their hives later this month.
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> "About 80 or 90 per cent of the beekeepers in the Niagara region have had substantial losses," George Dubanow, president of the Niagara Beekeepers Association, said in an interview yesterday.
>
> "This number is unparalleled. A typical winter loss is between 10 and 20 per cent."

The Current, April 19th: Part 3 - Australia Drought Documentary

> We've been listening to people for whom climate change isn't just a threat, it's a reality. So if you think climate change is a hot-button political issue in Canada, you should check out Australian politics.
>
> Even as the drought worsens and climate change threatens everything from Australia's Great Barrier Reef to its wine industry, Prime Minister John Howard remains unrepentant about refusing to sign on to the Kyoto Protocol. He's feeling the heat from the opposition Labour and Green Parties, both of which have made climate change their ballot issue for the upcoming federal elections later this year. Mr. Howard is even getting pressure from former World Bank chief economist Nicholas Stern, who recently chided Australia for not taking stronger action on greenhouse gas emissions.
>
> But if anything, Mr. Howard has dug in his heels, saying economic development takes precedence over targets on emissions reductions. Contrast that - with the man the Australian people voted Australian of the Year in January, not a pop singer, athlete or someone who wrestles crocodiles, but Tim Flannery, the author of the best-selling book, The Weather Makers: How We Are Changing the Planet and What that Means for Life on Earth. Tim Flannery was in our Toronto studio.

Sudden sea level surges threaten 1 billion: study

> New mapping techniques show how much land would be lost and how many people affected by rapid sea level rises that are often triggered by storms and earthquakes, a U.S. Geological Survey-led team determined.
>
> E. Lynn Usery, who led the team, said nearly one-quarter of the world's population lives below 100 feet above sea level - the size of the biggest surge during the 2004 tsunami that pulverized villages along the Indian Ocean and killed 230,000 people.

Oil's not well in Iraq

The IHS study confirms what most analysts of the Iraqi oil sector have long suspected. The giant oilfields discovered in the Kirkuk area in the north in the 1920s and in the southern region in the 1950s required the drilling of relatively few, shallow, wells, and there was consequently little incentive for major exploration and development efforts to be deployed elsewhere. The seizure of power by Saddam Hussein at the end of the 1970s ushered in a period of wars and sanctions that prevented any significant development of the Iraqi oil sector for more than a quarter of a century. Iraq's oil production capacity has fallen from a peak of 3.6m barrels/day to little more than 2m b/d, as the industry has suffered a further battering in the chaos and violence of the post-Saddam era. Iraq has the dubious distinction of having the highest reserve/production ratios in the world.

Since the US-led invasion in 2003 there has been only limited exploration drilling, mainly in the Kurdish region, and just three contracts have been let for existing oilfield development work-to Turkish and Canadian firms in the north and to Ireland's Petrel Resources in the south. These three schemes will add a total of some 350,000 b/d of production capacity by 2009. Further progress awaits an improvement in the security situation and the establishment of a robust legal framework that will allow foreign companies to invest.