



## The Round-Up: April 27th 2007

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### [Sands are shifting for oil supply](#)

The world continues to run rapidly out of oil and natural gas, which points to dramatically higher prices in a handful of years.

That was the message from Henry Groppe, a lanky Texan who advises oil companies and investors around the world about the world of prices. His firm, Groppe, Long & Littell, is based in Houston and was founded after he did stints as a chemical engineer for Saudi Arabia's Aramco, Dow Chemical, Monsanto and Texaco.

"The fundamentals always prevail, which is that the minute you start producing, you are depleting your resource," he told an audience of investors last week at a conference sponsored by Calgary's Pengrowth Energy Trust.

He showed production curves in the North Sea and Mexico that are catastrophically sudden in terms of their declines.

"This has a huge impact on the economies of Britain and Mexico," he said. "Britain became an oil importer this year for the first time in decades."

Oil production worldwide peaked months ago, but figures and prices don't reflect that yet because the production of liquids stripped from natural gas has been filling the gap, he said.

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### [Alberta's oil boom is already over](#)

Without the oil sands, Alberta would already be in the midst of those unthinkable dark days when the oil runs out, a time most Albertans imagine is still a long way off.

It's tempting to ask, why worry? Oil-sands production is expected to last 40 to 50 years. But the oil sands will never yield the rich flow of petrodollars pumped into the treasury by conventional oil and gas.

Despite the fact that production is rising dramatically, oil-sands royalties will go down, from a high of \$2.3 billion last year to \$1.1 billion in 2009-10.

Even when production triples to 3 million barrels a day in 2020, royalties will be stuck at \$1.1 billion, the same level as 2004-05, according to one report.

### [Industry warns of higher taxes if oilsands development slowed](#)

More calls for an oilsands moratorium prompted warnings of devastating economic impacts in Alberta as a provincial committee looking at how to develop the resource made its final stop Monday.

The pace of oilsands development emerged as a major theme among groups making presentations during the second phase of consultations, which wrap up provincewide hearings today in Calgary.

Amid calls for Alberta to put the brakes on oilsands development until environmental and infrastructure issues are addressed, industry officials said a stoppage would have a major impact on the province's booming economy.

"Do the people that advocate a moratorium really understand and appreciate that Albertans will need to possibly accept a six-per-cent provincial sales tax just to replace the \$3.7 billion in oilsands revenue received by the government this year," said Greg Stringham, vice-president of the Canadian Association of Petroleum Producers.

### [U.K. financial magazine places Edmonton first in North America](#)

Edmonton has the "best economic potential" of any North American city, in rankings to be released today by a Financial Times of London publication.

Foreign Direct Investment magazine places Edmonton immediately ahead of Mississauga, Ont.; Charlotte, N.C.; Tijuana, Mexico; and Calgary among cities with populations above 500,000.

### [Baird's plan has 'tough targets' for Alberta: CAPP](#)

"These are tough targets. There is no question," said Pierre Alvarez, president of the Canadian Association of Petroleum Producers.

"It's tougher than the Alberta targets and it's tougher than any of the targets the oil and gas industry's got in any other part of the world."

Federal Environment Minister John Baird's plan calls for an immediate reduction of greenhouse gas emissions by 18 per cent, based on 2006 levels.

The plan will also allow industrial polluters to reach targets by contributing to a technology fund, at a rate of \$15 per tonne of carbon.

Companies can also take part in domestic emissions trading and a one-time credit for emission reduction action between 1992 and 2006.

### [Conservatives abandon Kyoto for own climate plan](#)

"Our plan strikes a balance between the perfection that some environmentalists might be seeking and the status quo that some in industry seek to protect," said Baird.

"Canadians demand leadership from their government for both a clean environment and a growing economy."

The plan aims to:

- Reduce greenhouse gas emissions by 18 per cent from for existing industry by 2010 (based on 2006 levels);
- Reach a reduction target of 26 per cent by 2015;
- Cut emissions by 150 million tonnes, or 20 per cent from current levels, by 2020; and,
- An as-yet-undetermined mandatory fuel-efficiency standard for the auto industry, starting with the 2011 model year.

Julia Langer of the World Wildlife Fund disputed how the government calculated its targets, by not using Kyoto's baseline of 1990 levels.

"They way they have put it -- 20 per cent reduction by 2020 - they're counting according to a baseline that nobody uses," she told CTV Newsnet.

If you calculate that based on the internationally recognized baseline, we're still going to be above 1990 levels in 2020. That's nowhere near our Kyoto target."

### [Oilsands breathes sigh of relief](#)

"I'm cautiously optimistic the costs will be less than what the market is discounting right now," said Andrew Potter, oil-and-gas analyst at UBS Securities Canada Inc., noting the market was assuming the new rules would cost in the \$1-to-\$1.50-a-barrel range.

Mark Friesen, oilsands analyst at FirstEnergy Capital Corp., said that on first blush the impact appears to be less than \$1 a barrel, which could still be significant in the evaluation of new projects.

"What you are doing is tipping the economic balance and burdening lower future cash flows against higher short-term costs," Mr. Friesen said. "At some point there is a tipping point."

### [Suncor warns of cost pressures](#)

Suncor Energy Inc. said first-quarter profit fell to \$551-million from \$713-million for the same period in 2006 and warned that capital cost increases are putting pressures on its planned oil sands expansion.

The big oil sands operator also announced Thursday it is scaling back planned 2007 production slightly because of lower output in the first quarter.

The company said it earned \$1.20 a share for the three months ended March 31, compared with earnings of \$1.56 a share for the same 2006 period.

## [2 oilsands workers killed in roof collapse](#)

Two workers at a giant oilsands project north of Fort McMurray were killed and four others injured when the roof of a massive storage tank collapsed on Tuesday, Alberta RCMP said.

All six workers involved in the accident were temporary labourers from China. The injuries to the four are not believed to be critical.

They were working on the storage tank at the Horizon Oil Sands Project about 70 kilometres north of Fort McMurray when the roof - which was higher than a three-storey building - fell on Tuesday afternoon.

The job site, an open pit mining project near the small community of Fort MacKay on the Athabasca River, is run by Canadian Natural Resources Ltd., an oil and gas company based in Alberta.

## [Ottawa moves to ban incandescent bulbs](#)

The federal government has joined the crusade against old-style incandescent light bulbs, vowing to phase out power-hungry lighting by 2012.

The announcement was made as the Conservatives outlined their environmental plan on Wednesday morning, pledging to cut greenhouse gas emissions, promote energy efficient consumer products and cut air pollution in half.

## [Canada's energy insecurity](#)

Today and tomorrow, a prominent right-wing think-tank based in Washington is the lead host to two closed-door meetings in Calgary. The meetings are to discuss ways to enhance American energy security by getting more Canadian oil and gas.

Why are Canadians involved in discussing American energy security when Canada has no energy policy, and no plans for ensuring oil for Eastern Canadians during a supply crisis?

The roundtables, two of seven planned meetings led by the Center for Strategic and International Studies (CSIS), are part of the "North American Future 2025 Project."

It is intended to feed into the Security and Prosperity Partnership, begun in Waco, Texas, by the "three amigo" governments of North America in 2005.

## [Ontario goes solar](#)

The Ontario government has given approval for a California company to construct a

massive solar "farm" near Sarnia that will blanket an area larger than all three Toronto islands with hundreds of thousands of sun-soaking panels.

It will be the largest solar power station in North America and among the most expansive in the world to use photovoltaic cells that produce electricity when exposed to sunlight. Once complete, the 40-megawatt Sarnia project will be able to supply enough emission-free electricity to power between 10,000 and 15,000 homes on sunny days.

### [BC Hydro receives 80 bioenergy proposals](#)

BC Hydro has received more than 80 expressions of interest from companies, municipal governments and first nations wanting to develop bioenergy from wood waste.

The Crown corporation asked for a show of interest last month as part of the provincial government's energy plan. It's the first step in developing more solid proposals that would take advantage of wood that is currently not being used for lumber, pulp and other wood products.

Most of the interest came from the central Interior, where the mountain pine beetle has infested an estimated nine million hectares of forestland, killing more timber than can be used by the existing forest industry.

### [Tax refund needed](#)

With the Halloween bombshell, Finance Minister Jim Flaherty may have thought that he achieved greater fairness in the tax system by establishing a more level playing field between corporate and income-trust securities. He has not realized, however, that his tax agenda is far from finished. A glaring hole has opened up by which certain institutional investors have a significant tax advantage over taxable investors when bidding for companies.

Unless he pays attention to this issue, significant parts of corporate Canada, not just BCE, will fall in the hands of pension funds and international tax arbitragers. This in itself would not necessarily be bad if the tax system were neutral among different players: Businesses would then tend to fall into the hands of the best managers. However, tax policy is now tilted heavily to tax-exempt investors who can outbid taxable acquirers.

Flaherty can repair this bias by undertaking some critical changes to the tax system that go well beyond his Halloween measures. Otherwise, his opponents can claim that his measures unfairly injured trust unitholders while opening up capital markets to tax-favoured institutions.

### [Arctic Dreams](#)

There is probably far less uncertainty now about sea ice declines, if current trends continue, than there is about the development of Arctic oil & gas resources. Gautier seems to imply that the world is simply waiting for the "ice [to] melt out the way", a

view that strangely understates the problems attending the production of fossil fuels in the Arctic, and does not support his intended point that predicting the peak of world oil production may not be a worthwhile pursuit.

Is it appropriate for a representative of the USGS to suggest that organizations like ASPO-USA are wasting their time worrying about peak oil, just when the GAO is issuing reports on the subject? There is no convincing evidence that the production of oil & gas resources in the Arctic basins is germane to a peak in world oil production in any timeframe one might care about. The peak flow rate for the entire region is estimated at 3 million b/d, a bit less than 60% of what Ghawar, the world's largest oil field, has produced on a daily basis for many decades. The rate of warming in the high northern latitudes and uncertainty about the size of the resource base in these polar areas serve only as distractions that may prevent the public from arriving at an honest assessment of the future oil supply.

### [Raude heads south](#)

The Eirik Raude is likely to return to the Orphan Basin in 2008 or 2009 to continue exploration. The Great Barrisway hole was drilled in 2,350 metres of water, deeper than any other well drilled so far offshore Newfoundland and Labrador.

Initial estimates were that the exploration well would cost \$140 million based on an estimated four months drilling. As completed, the well took seven months.

On top of the harsh ocean environment offshore Newfoundland, the water depth in the Orphan Basin calls for cutting edge technology. Pressures at the depths involved can be as much as 200 times the atmospheric pressure at the ocean surface.

Great Barrisway F-66's water depth rivals those in the Gulf of Mexico. Chevron's Jack 2 field in the Gulf of Mexico was discovered at a water depth of 2100 metres and 6100 metres below the sea floor.

### [The goal is autonomy](#)

We as Newfoundlanders and Labradorians aspire, not to perpetual subservience, but to self-sufficiency. Our people are not content to tolerate a future of relying on others economically. However, our people have now also learned that we will achieve self-reliance economically only by taking charge of our future as a people. To that end, My Government will harness the desire among Newfoundlanders and Labradorians to cultivate greater cultural, financial and moral autonomy vis-à-vis Ottawa. Our priority is the well-being of successive generations of Newfoundlanders and Labradorians, including those who live here now and those we welcome to join us from all over the world. My Government will affirm Newfoundland and Labrador's status as a distinct people, not uniform in lineage but multi-cultural, one nation inclusive of many nations living in harmony together.

### [Construction commences on Hydro-Quebec megaproject](#)

Hydro-Quebec, the provincial utility that is a major energy exporter to the northeastern United States, has commenced construction on a new megaproject on Cree lands of Quebec's far north James Bay region.

The project, which would divert the waters of the Rupert River, has divided the Cree nation. The last chief of the Cree Grand Council, Ted Moses, signed on to the project and aggressively pushed it; but a new and more critical administration has since taken office in Cree country. The chiefs of the three communities to be directly affected by the water diversion are in active opposition.

"People aren't aware of how it will impact us and our way of life," said Robert Weistche, chief of Waskaganish, one of the three dissenting communities. "We would lose the majority of the river because we live at the mouth, at the estuary. In light of global warming, one year there might not be any water at all."

The project consists of a series of dams, tunnels and canals on the Rupert River, diverting 70 percent of the flow 100 miles north into the system of hydro dams already built in the Eastmain River watershed. The Rupert River diversion is slated to add 888 megawatts of power, flooding almost 373 square miles of traditional Cree lands. New roads, power lines, temporary cities and two new power stations are to be built in the remote region of boreal forest. The deal that approved the project also includes rights to timber and mineral exploitation in the region.

### [Climate Change Adds Twist to Debate Over Dams](#)

The power company that owns four hydroelectric dams on the Klamath River says the dams provide a crucial source of so-called clean energy at a time when carbon emissions have become one of the worlds foremost environmental concerns.

But the American Indians, fishermen and environmentalists who want the dams removed point to what has happened since the first one was built nearly 90 years ago: endangered salmon have been blocked from migrating, Indian livelihoods have been threatened, and, more recently, the commercial fishing industry off the Oregon and California coasts has been devastated. They say the dams are anything but clean. They say the river is a mess.

Should we have to sacrifice water quality for air quality? said Craig Tucker, who is coordinating efforts by the Karuk tribe of Northern California to take down the dams. Should Indians and family fisherman be the ones who have to sacrifice to address this problem?

### [Florida coast pounded by foreclosures](#)

The five-year housing boom that ended last year opened home ownership to a record number of Americans, but the bust that followed is the worst housing decline in 16 years, analysts say. The resetting of adjustable-rate mortgages is beginning to push monthly mortgage payments sky-high while income remains stagnant and property values plunge, preventing homeowners from selling their way out of foreclo-sure, so to speak.

"Overburdened homeowners simply can't catch a break in this real estate market," said

Mike Larson, an analyst at Weiss Research. "Home sales are down by double digits, home prices are stagnant or falling, and home inventories are through the roof."

These factors make it hard for property owners facing foreclosure to sell their homes and pay off their loans, while tightened lending standards make it impossible for many troubled debtors to refinance at better terms. That's a recipe not just for rising foreclosures but also for soaring inventory.

### [U.S. housing market slump hits Norbord](#)

Norbord Inc. (TSX: NBD), a Toronto-based maker of wood products used for construction, reported a loss of \$16 million (U.S.) in the first quarter, compared with earnings of \$58 million for the same 2006 period as the company was hurt by low prices for oriented strand board, a popular plywood substitute used by the slumping U.S. housing industry.

### [The Real-Estate Blame Game](#)

An excellent article (subscription required) by Joel Millman in yesterday's Wall Street Journal suggests that retailers and service companies throughout Latin America are starting to feel the pain of weak housing in el norte. Why? In recent years, hundreds of thousands of Hispanics have found work in construction-related trades. Many of them are migrants who send their earnings home. Walter Molano of BCP Securities crunched the numbers between 1997 and 2005 and found that there was a high level of correlation between housing starts and remittances to Latin American countries. Molano notes that remittances to Mexico peaked in May 2006, about when housing starts peaked, and are down 26 percent since then. The Journal observed that remittances to Brazil and Guatemala are off by roughly the same amount in the past year.

### [Subprime 'Liar Loans' Fuel Bust With \\$1 Billion Fraud](#)

Cheating on mortgage applications is so widespread and so seldom punished that it's fueling an increase in foreclosures that will prolong the housing slump, said Robert W. Russell, counsel to the director of the Office of Thrift Supervision, which oversees savings and loans.

Borrowers and brokers commit fraud when they exaggerate the applicant's income, qualifying the borrower for a home he otherwise couldn't afford. Such fraud robbed lenders of an estimated \$1 billion last year, according to data collected by the Washington-based Mortgage Bankers Association and the Federal Bureau of Investigation.

"Misstatements about employment and income are being made every day," Russell said. "The brokers are just putting down on paper what the underwriters would require. There are borrowers providing false information as well."

Loans that require little or no documentation of income soared to \$276 billion, or 46 percent, of all subprime mortgages last year from \$30 billion in 2001, according to



estimates from New York- based analysts at Credit Suisse Group. Homebuyers with those loans defaulted at a 12.6 percent rate in February, compared with 1.5 percent of fully documented prime mortgages, said San Francisco- based First American LoanPerformance, a mortgage consulting group.

A 2006 study cited by the Mortgage Asset Research Institute showed that almost 60 percent of stated income loans were exaggerated by at least 50 percent.

### [Spain hit by property crash fears](#)

Coupled to this has been strong demand for housing helped by the low interest rates that have also underpinned consumer spending and allowed households to take on increasingly large amounts of debt.

However, in recent months cracks have started to appear and mortgage demand has slowed as homeownership levels topped 85%.

On top of that, households now have some of the highest debt levels in the eurozone, much of which is based on variable lending rates leaving consumers open to sudden increases in borrowing costs.

The worry is that should the suspected property bubble burst, and some analysts estimate that house prices are overvalued by 30%, then many other industries such as banking and retail would also suffer.

### [Death knell for India property boom?](#)

'The grave dancer', US tycoon Samuel Zell, was in a mood to spoil a two-year-long party when he told a gathering of Indian property executives this week they were 'on the brink of excess' and their boom would end in tears. The developers and fund managers could only agree.

The man who earned his nickname, and a \$4.5 billion fortune, picking up cheap offices in the 1990s US downturn and packaging them into a property trust sold last year for \$39 billion, said it was 'mental masturbation' to believe there were endless riches for investors in India's 1 billion market.

### [Too much like 1929](#)

The point is rapidly approaching when China's central bank will be forced to abandon their fixed exchange rate regime. On March 20, 2007, the governor of China's central bank stated for the first time that they "will not stockpile foreign exchange reserves any more" (an extraordinarily important comment that few people took note of). Given the present state of affairs, how could that possibly be accomplished without the abandonment of the fixed exchange rate system? They will realize that the alternative to this (keeping the policy in place) can only result in the destruction of the Chinese economy. When the peg on China's foreign exchange rate is dropped, the US economy (as well as the global economy) will implode.

### [Subprime lending market healthy in Canada, expert says](#)

Xceed Mortgage Corp. president Michael Jones said Monday that the Canadian subprime lending market will likely remain "healthy and relatively protected" in the foreseeable future, despite a default rate of eight per cent in the United States.

Jones told investors during the company's annual meeting that the current rate south of the border is "a bad number . . . pretty much any way you measure it."

The American lending environment is worse than it was during the 2000-01 recession, he said, because U.S. interest rates are higher and house price appreciation has slowed.

The choppy results have meant that many U.S. banks and firms that lend to subprime borrowers face an increasing number of loan delinquencies and foreclosures.

### [80% of Canadian mortgage holders could handle small rate increase](#)

The Canadian mortgage market continues to grow, helped by low mortgage rates that make home ownership possible, even as housing prices rise, according to a report released today by the Canadian Association of Accredited Mortgage Professionals (CAAMP). The report, authored by CAAMP's Chief Economist Will Dunning, was based on information gathered by Maritz Research in a phone survey in February. The report indicates that even if interest rates increased by as much as one-half point, 80 per cent of Canadians could tolerate the increase to their mortgage payments.

### [Rosy economic forecast](#)

The Bank of Canada is presenting a mostly rosy picture of the economy over the next three years, saying Canadians will continue to have robust job prospects and higher disposable incomes.

The projections in the bank's semi-annual Monetary Policy Report released Thursday continue to highlight the increased risk of inflation and the unexpected stubbornness of the U.S. economic weakness.

And for the first time, the bank has begun to factor in the impact of the aging population as baby boomers approach retirement.

### [Europe's move to biofuels threatens rainforest](#)

Europe's dash for biofuels could accelerate the destruction of tropical rainforests, the European Commission admitted on Thursday.

The EU's executive arm said that the 27-member bloc's decision to increase tenfold its consumption of vehicle fuel made from crops by 2020 to reduce greenhouse gas

emissions would increase the pressure on virgin land, especially in Asia.

However, it said it was working on laying down minimum standards for sustainable fuels.

### [Dutch consider tough biofuels criteria](#)

It's the new climate change dilemma: finding alternatives for oil and gas without doing more harm than good.

In the rush to develop biofuels, forests are burned in Asia to clear land for palm oil, and swaths of the Amazon are stripped of diverse vegetation for soya and sugar plantations for ethanol.

On Friday, a Dutch committee will unveil stringent criteria for growing biofuels in ways that don't damage the environment or release more greenhouse gases than they save.

Other European countries are working along similar lines and closely watching the Dutch initiative—the first to reach the level of government consideration.



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