



The Round-Up: July 20th 2007

Posted by [Stoneleigh](#) on July 20, 2007 - 1:01am in [The Oil Drum: Canada](#)

Topic: [Miscellaneous](#)

Tags: [arctic](#), [biofuel](#), [china](#), [climate change](#), [debt](#), [derivatives](#), [drought](#), [electricity](#), [mortgage-backed securities](#), [nuclear](#), [oil](#), [oil sands](#), [pollution](#), [risk](#), [sovereignty](#), [subprime](#), [transmission](#), [water](#) [[list all tags](#)]

Ontario has nuclear ambitions, the first of which is being thwarted by a lack of transmission capacity. If the power can't be transmitted once the deadline arrives, Ontario will have to pay for it anyway under the terms of their agreement with Bruce Power. Meanwhile, Quebec has difficulties with transport infrastructure, Alberta is losing it's skilled workforce in the oilpatch to early retirement, and Danny Williams may (or may not) be talking to the oil companies in Newfoundland.

CIBC, pondering its exposure to the subprime mess south of the border, is concerned about the prospect of \$100 oil, and that risk may be becoming a four-letter word. The M&A juggernaut may be coming to an end, as Canada worries about the knock-on effect of a US recession. The subprime nosedive gets dramatically worse, with some investors threatening to sue Bear Stearns over a total loss. Desperate optimism continues, despite the subprime problems being "safely contained to all 15 ABX indexes". Meanwhile the Mortgage Lender Implode-O-Meter reaches 100.

Water quantity is a problem for both California and London, England, whereas water quality is the issue in Alberta, Ottawa, China and the Gulf of Mexico. China in particular is paying the price for being "filthy rich".

[Landowners worry about bulldozed rights](#)

Hundreds of Ontario landowners have begun banding together in an effort to ensure their rights aren't bulldozed along with their homes and properties as part of a \$635-million plan to get new nuclear and green power to the Toronto area....

....Under an agreement with Bruce Power, the province has contracted to buy 1,500 megawatts of electricity produced by the nuclear plant at the lake's edge near Kincardine, Ont., when two reactors come back on line in 2009 and the plant gets up to full strength by 2012....

....Provincial rate payers will be on the hook for up to \$460 million a year for each "stranded" nuclear unit that cannot get power to the grid because of transmission issues, government documents show.

Also, the province has committed to at least 700 megawatts of wind power from the Bruce County area as part of its strategy to mothball its coal-fired power plants.

In March, the Ontario Power Authority, which administers power contracts in the province, urged Hydro One to get cracking on building a new 500-kilovolt transmission

line to ensure the power can flow to energy-hungry southern Ontario.

[The nuclear shield](#)

Acts of gross negligence by suppliers of nuclear goods and services — the kind of mistakes that might cause nuclear reactors to explode — will no longer be protected from liability under a proposed law that passed first reading in the House of Commons last month.

If the Nuclear Liability and Compensation Act passes, companies knowingly supplying faulty nuclear goods or services that cause a nuclear accident will no longer be exempt from liability for injuries or loss of property suffered by neighbours of nuclear power stations. Under the existing law, suppliers such as General Electric, SNC-Lavalin and Westinghouse are immune from prosecution, even if they supply faulty equipment recklessly or with intent to injure.

[Dozens of Problems at Quake-Hit Plant](#)

A long list of problems — including radiation leaks, burst pipes and fires — came to light Tuesday at the world's largest nuclear power plant, a day after it was hit by a powerful earthquake.

The malfunctions and a delay in reporting them fueled concerns about the safety of Japan's 55 nuclear reactors, which have suffered a string of accidents and cover-ups.

"They raised the alert too late. I have sent stern instructions that such alerts must be raised seriously and swiftly," Prime Minister Shinzo Abe told reporters in Tokyo. "Those involved should reflect on their actions."

[Nuclear energy not all Springfield](#)

I mean, where would the humour be if Homer wasn't about to blow up the town every day at work as he scarfed donuts and ignored safety lights?

Of course, the real world is a very different place. The engineers responsible for nuclear power plants are better prepared and more intelligent than Homer. The workers at such facilities care a great deal.

[More than Moose Pasture](#)

Pre-2004, there were only a few companies working in the Athabasca. These companies took advantage of the fact that uranium was out of favor to accumulate properties that,

by virtue of the exploration work done in earlier uranium rushes, were known to be the better prospects. Post-2004 the staking rush began in earnest, although it was quickly apparent that much of the land picked up late in the day was likely little more than moose pasture.

So the first question you need to ask about Athabasca-based uranium companies you own is exactly when they acquired their land. If it was at any point after 2004, then some (fairly high) level of skepticism is warranted.

[Ottawa, Cree reach 'historic' accord](#)

"This agreement sets us up in a nation-to-nation relationship," Matthew Mukash, Grand Chief of the Grand Council of the Crees, said yesterday.

Federal negotiator Raymond Chrétien said the agreement settles grievances from the past 30 years but also deals with governance issues for the next 20 years.

The deal suspends three Cree lawsuits that accuse Ottawa of failing to deliver all benefits promised in the 1975 James Bay and Northern Quebec Agreement.

Canada's first modern land-claim treaty, the James Bay agreement provided \$225-million to the Crees and Inuit in return for allowing hydroelectric projects to be placed in sub-Arctic Quebec.

[Big rigs to be banned from 135 "questionable" Quebec structures](#)

The Quebec Transport Department is going public with a list of 135 questionable bridges, overpasses and ramps and will no longer allow overloaded trucks to cross these structures, according to a report in The Gazette.

Trucks with permission to go over their legal limits of about four tonnes per axle will be barred from the 135 structures, department official Jacques Gagnon said yesterday, which will mean virtually all loaded semis will not be permitted to pass. The normal legal limit for a semi-trailer is 18 tonnes.

The department have previously refused make the list available to the public, claiming its inspection of the 135 structures is not an indication they are unsafe.

Last week, Gagnon said the suspect structures will be identified only "if there is a sign of danger and public safety is in question," according to The Gazette. However, the list will now be publicized after the Quebec Truckers Association met with senior department officials and demanded to receive advance notice of any shutdowns or load limitations on specific roadways.

The Transport Department targeted the 135 structures after experts for the Johnson commission warned that concrete slab structures similar to the de la Concorde Blvd. overpass in Laval that collapsed Sept. 30, 2006, killing five people, could be unsafe because they lack sufficient steel reinforcement.

[The Coming Conflict in the Arctic](#)

Russia has the world's largest gas reserves and is the second largest exporter of oil after Saudi Arabia, but its oil and gas production is slated to decline after 2010 as currently operational reserves dwindle. Russia's Natural Resources Ministry estimates that the country's existing oil reserves will be depleted by 2030.

The 2005 BP World Energy Survey projects that U.S. oil reserves will last another 10 years if the Arctic National Wildlife Refuge is not opened for oil exploration, Norway's reserves are good for about seven years and British North Sea reserves will last no more than five years – which is why the Arctic reserves, which are still largely unexplored, will be of such crucial importance to the world's energy future. Scientists estimate that the territory contains more than 10 billion tons of gas and oil deposits. The shelf is about 200 meters (650 feet) deep and the challenges of extracting oil and gas there appear to be surmountable, particularly if the oil prices stay where they are now – over \$70 a barrel.

The Kremlin wants to secure Russia's long-term dominance over global energy markets. To ensure this, Russia needs to find new sources of fuel and the Arctic seems like the only place left to go. But there is a problem: International law does not recognize Russia's right to the entire Arctic seabed north of the Russian coastline.

[Government's Biofuel Policy Dangerous](#)

Just a few years ago, the biggest threat to our society's survival was our willing blindness towards the crisis facing us. Now that we're aware of that crisis, the biggest threat to our survival is our willingness to believe that there are easy answers; that we're "on the right track;" that our political leaders are starting to "get it." This is the threat of greenwash, intentional or otherwise, and it can't be underestimated.

[Ethanol fuels global run-up in food prices](#)

The reasons vary with each product, but one factor behind higher prices may be an ethanol boom south of the border, with Canadian chicken and dairy farmers saying they're seeing higher feed prices.

"Corn and wheat prices are putting upward pressure on food in general," said Ron Morency, acting chief of Statscan's consumer price division. "We see that right now in our meat prices."

[Ethanol stirs fear of water shortage](#)

The mass quantity of water needed for Iowa's booming ethanol industry - billions of gallons each year - has raised concerns among state officials who say laws may be needed to prevent a water shortage in the state.

Several lawmakers say that a close look at the issue is necessary and that laws may be needed to require ethanol facilities to recycle water.

[The End of Cheap Food](#)

The global poor don't care about the price of meat, because they can't afford it even now -- but if the price of grain goes up, some of them will starve. And maybe they won't have to wait until 2016, because the mania for "bio-fuels" is shifting huge amounts of land out of food production. One-sixth of all the grain grown in the United States this year will be "industrial corn" destined to be converted into ethanol and burned in cars, and Europe, Brazil and China are all heading in the same direction.

The attraction of bio-fuels for politicians is obvious: they can claim that they are doing something useful to combat emissions and global warming (though the claims are deeply suspect), without actually demanding any sacrifices from business or the voters. The amount of US farmland devoted to bio-fuels grew by 48 percent in the last year alone, and hardly any new land was brought under the plough to replace the lost food production. In other big bio-fuel producers like China and Brazil it's the same straight switch from food to fuel. In fact, the food market and the energy market are becoming closely linked, which is very bad news for the poor.

[Oil patch braces for big exodus](#)

Mr. Maynard said many of Alberta's older workers in the energy sector (the median age is currently about 44) aren't even making it to what's considered a traditional retiring age in other parts of Canada because the economic boom has made it easier for them to leave the work force sooner. "What we are seeing is that people are retiring earlier and earlier," he said, adding that it's not unusual for a person to leave at age 50.

He said there is increasing concern about the trend of earlier retirements coupled with the impending mass exodus of the energy industry's older skilled workers, such as project managers and geologists.

The timing couldn't be worse: The oil patch has plans to build about \$100-billion worth of oil sands projects in northern Alberta over the next 10 years in hopes of tripling production. A lack of workers could lead to cost overruns, a problem that has already plagued work being done in the oil patch.

Nearly one in every six workers in Alberta is employed directly or indirectly in the province's energy sector.

Last week, Alberta's energy associations and employers released a plan to deal with the acute labour shortages. It suggested 46 new ways to attract more people, including recruiting more women and aboriginals, to the industry.

[Royal Dutch Shell commits to Calgary](#)

Calgary will continue to be a key business centre for Royal Dutch Shell PLC as it will be the headquarters for all of the company's onshore North American exploration, production and development operations, the Dutch energy company said yesterday.

The decision, announced by Adrian Loader, the new president of Shell Canada, ends months of speculation over whether Royal Dutch's takeover of its formerly independent Canadian subsidiary would lead to many Calgary-based operations moving to Houston or elsewhere.

"We will continue to invest in Canada and develop our business here," Mr. Loader said at a press briefing. "This is about building on the platform we have established in Canada and fitting those operations into a global structure."

[CIBC World Markets StrategEcon](#) (PDF warning)

- \$100 Oil
- Can Ontario Shut Down Coal and Still Keep the Lights On?
- Credit Spreads: Is Risk Now a Four-Letter Word?

[Evidence Mounts For US\\$100 Oil](#)

With the price of oil rising in recent weeks, expectations that crude will reach US\$100 per barrel is gaining plenty of traction.

Technological advances were long touted as a way to dig up cheap crude and boost supply. Meanwhile, high prices were expected to limit demand.

But both of those arguments against US\$100 oil appear to be falling by the wayside, as prices have doubled in three years and demand appears to be accelerating, says CIBC World Markets' chief economist Jeff Rubin.

[Williams downplays Chevron VP's visit](#)

The Chevron partners balked over Williams's insistence that the provincial government take an ownership stake — of just under five per cent — of the offshore oil project.

As well, the Newfoundland and Labrador government has been seeking a richer royalty regime with Hebron than had been the case with the three offshore oil fields now in production.

"The province has stated its position and the oil companies know exactly where we are," Williams said.

In June, Williams told delegates to a St. John's oil industry convention that talks had informally resumed between the government and the Hebron partners. He said Wednesday he remains hopeful that formal bargaining will soon begin.

[The world has two energy crises but no real answers](#)

Mary Kaldor – co-author of a new book called Oil Wars (Pluto) – points out the struggle to find new oil is a familiar sort of conflict, reminiscent of the 19th century “great game” or earlier imperial clashes.

[U.S. Army And RCMP Derail Public Forum](#)

In other words, the U.S. Army is now giving orders to working with the RCMP to frustrate freedom of speech in Canada, by Canadians. Hopefully the Council of Canadians will be able to find another venue, though how far away they have to go before the U.S. Army will let them meet (10km? 20km? 100km?) is unclear.

[Interest rates made in Alberta](#)

The pace of growth in Alberta is driven by one thing only, namely the outlook for the price of oil, which is expected to keep rising. Against that picture of unending profits from oil-sands development, it is hard to imagine that either a quarter- or half-point hike in interest rates will slow oil-sands development much. For that to happen, the bank likely would have to drive up interest rates much further. That, in turn, would mean decimating what is left of Ontario's manufacturing sector.

In reality, the bank cannot significantly cut growth in Alberta. Instead, it is the Alberta government which has the means to slow the pace of oil-sands development if it wanted to do so. But Alberta is unwilling to apply any breaks to its economy, with the result that Ontario is now being made to pay through lost jobs and a weakened economy.

[The U.S. deficit and Canada](#)

Canada and Mexico, the U.S. NAFTA partners, are especially vulnerable, as a new report from the McKinsey Global Institute warns. Canada and Mexico will play an important role in any U.S. correction.

It's not hard to see why. Last year roughly 80 per cent of Canada's exports went to the United States. Moreover, we had a big trade surplus with the U.S. - just over \$96 billion (Canadian).

In its report, the McKinsey Global Institute looked at one scenario in which the United

States tries to eliminate its current account deficit by 2012. To do this, the U.S. dollar would have to depreciate by about 30 per cent from its January level, when it was about 85 U.S. cents.

This would bring the Canadian dollar close to 120 U.S. cents, and as the report spells out, this would hit the Canadian economy hard. In fact, it says, the United States would have to work with Canada, and with Mexico, because of the devastating impact.

[If you're in a hole, merge. But is it too late for BP and Shell?](#)

The IEA insists its predicted crunch is driven by factors above ground, such as the conflict in Iraq and does not amount to "peak oil" - the geologically determined onset of terminal decline in worldwide production. But that distinction may come to feel academic. As Mr Birol put it: "The oil industry will be facing a very serious test by 2015... the gap between supply and demand will widen significantly."

At which point mega-mergers between the likes of BP and Shell will be exposed as powerless to combat the global energy crisis, whatever its cause.

[Mergers, mergers everywhere](#)

The worldwide mergers and acquisitions juggernaut left a record \$2.7-trillion (U.S.) in deals in its wake in the first six months of 2007, nearly 70 per cent higher than last year's first half and well above the previous record of \$1.93-trillion set in 2000, according to a survey released Thursday.

However, the poll by the New York-based Association for Corporate Growth (ACG) and Thomson DealMakers also shows there is mounting concern among private equity firms that debt financing, whose easy availability has helped fuel the feeding frenzy, is going to become tougher to get. Some 68 per cent of U.S. private equity executives who were surveyed said debt markets will be "worse" next year, although at 36 per cent, their Canadian counterparts were less bearish.

[Is the End of the M&A Boom at Hand?](#)

The messy market in risky mortgages has made banks much less willing to hand out no-money-down loans or to put cash in the hands of unqualified buyers. But look beyond the subprime problems, and you'll see that the market for shaky corporate debt also has some difficulties just now coming to light. And they may prove to be even more severe.

Far from some esoteric niche of high finance, the new caution around syndicated debt holds immediate ramifications for investors. If a major transaction such as the \$29 billion deal for First Data (FDC) or Chrysler's complex go-private acquisition were to collapse, the repercussions on Wall Street would be immense and far-reaching.

[The Feared Foreign Corporate Invasion Has Begun](#)

In times of peace and economic prosperity, foreign control of strategic industries and infrastructure may not be an immediate threat. But during major economic recessions—or, worse, times of geopolitical upheaval and war—the loss of ownership and full control of national industries can be catastrophic.

[Mass Foreclosures Threaten the U.S.](#)

The effect that mass foreclosures will have on the U.S. housing market is entirely negative. The foreclosure surge will cause further drops in home prices and may even devastate entire communities. It is estimated that homes in neighborhoods with high foreclosure rates can expect a ten percent decrease in property values from foreclosures alone.

In other words, it's going to get really, really bad.

[The Desperate Optimism of the Invested](#)



Much has been said of the madness of crowds in a market bubble. Our experience is that optimistic beliefs that develop within a community of bankers, fund managers, dealers, traders, consultants, and investors when vast sums of money are flowing during an asset bubble create systemic mis-pricing and poor evaluation of risk within a market. The availability of apparently free money flowing for years on end distorts the judgment of, not to mention the motive for accurate appraisals by, highly experienced professionals, a phenomenon we call The Desperate Optimism of the Invested.

It is as likely to infect the professional holder of any non-diversified, un-hedged or ineffectively hedged long position in any asset in a sustained bubble market. It's not only the 24 year old no-money-down real estate mogul during the housing bubble or gold-bug with most of his or her net worth tied up in precious metals during an inflationary boom who is susceptible.

Whether a pro or an amateur, maintaining a disinterested and impartial perspective on the contents of one's portfolio may not be as much fun as being a cheerleader for and true believer in a particular component of it, but the practice will save you a lot of money and heartache.

[Hedge-fund meltdown at Bear Stearns seen as 'systemic' problem](#)

An analyst at Punk Ziegel & Co. downgraded Wednesday the five leading U.S. brokerage firms, lowering their ratings to sell, and said the apparent meltdown of two hedge funds run by Bear Stearns Cos. is likely an industry-wide problem.

"I do not view this as a Bear Stearns problem, but a systemic one," Dick Bove said. "This opens investors to sizable losses which, at this moment, simply cannot be calculated."

[Subprime mortgage crisis rocks US market](#)

Mr Bernanke's pessimism is now creating concerns about fallout in other parts of the US economy exposed to the subprime sector.

Economist Richard Iley of BNP Paribas in New York says the chairman's downbeat outlook should ring alarm bells.

"I think the fact that he was a lot less confident that this overall subprime problem will remain contained, won't spill over into broadening, tightening up credit standards and risking perhaps a broader credit crunch in the economy - he didn't quite exude that type of confidence that he has in the past," Mr Iley said.

[Australian investors hit by US subprime crisis](#)

An Australian investment fund is teetering on the brink of a billion-dollar collapse after being exposed to the subprime mortgage crisis in the United States.

Basis Capital, which runs two hedge funds linked to US mortgages, has told its investors the outlook is bleak at that at best, with returns maybe just at 50 cents in the dollar.

[Bruised Bear hedge fund investors mull legal action](#)

CNBC reported on Wednesday that Bear Stearns had hired several outside law firms as it braces for investor litigation. It said the Wall Street firm had hired WilmerHale to represent it before the U.S. Securities and Exchange Commission and shareholders, another to represent the board of directors and audit committee and another to represent the funds themselves.

Bear Stearns did not respond to requests for comment on potential litigation or its legal strategy.

[All Mortgage Tranches Take a Hit](#)

You have to pity the investors that were locked in all the way back in February. A history of the Bear Stearns saga can be found in *Bear Tracks & CDOs* and *A Bear's Bath*. Essentially Bear Stearns bet the farm (or rather its investor's farms) by making extremely risky leveraged bets with customers' money then locking them in. Had investors been able to bail in February they might have gotten 70% on the dollar. It's hard to say. What is not hard to say is they would have gotten considerably more than zero cents on the dollar.

[Subprime Well Contained to All 15 ABX Indexes](#)

This morning, just as a Bloomberg headline scrolled by reporting that Merrill Lynch's (MER) CFO is assuring everyone that the Bear Stearns (BSC) subprime issues are "limited" and "well under control," we happened across another story noting that all 15 of the ABX Indexes - indexes made up of credit default swaps on subprime mortgage bonds with ratings from AAA to BBB- fell to record lows yesterday. All 15. Record lows.

Oh, but it's not just the ABX indexes under pressure. According to Bloomberg the CDX North America Investment-Grade Index of 125 companies was up big as well. An increase in the index suggests deterioration in the perception of credit quality. Corporate credit quality.

If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants.

Friedrich Hayek

[Five Things You Need to Know \(and what it means\)!](#)

The largest issue (for now) in the subprime (and growing Alt-A) space is leverage employed by hedge funds. The two Bear Stearns funds that blew up were obviously highly-levered. So it doesn't take much of a haircut to produce stunning losses. But what about us normal folks? Is this going to hit my 401k? Are my stock investments at risk?

[Moody's Says It Is Taking Hit](#)

Moody's Investors Service says it is paying a high price for its tough stance on lax lending standards for commercial mortgage-backed securities.

In a new report that assesses the status of the market, the Moody's Corp. unit said it was passed over and not hired for 75% of the commercial mortgage-backed securities rating assignments issued in the past few months as a result of its requirement that issuers add an extra layer of credit enhancement. Moody's said issuers are "rating shopping" -- meaning they were hiring competitors that would hand out higher ratings on securities.

[Understanding CIBC's subprime mortgage exposure](#)

CIBC is having trouble assuaging investors who fear yet another cock-up from the accident-prone bank.

This time it's over its dealings in the U.S. subprime market. Media reports, leaning heavily on hedge fund managers, suggest the bank is whistling its way to a massive haircut on some investments in collateralized debt obligations (CDOs).

Nonsense, says the bank, beyond which it fails to mount a convincing defence.

Truth is, not even the bank knows what's in store for its subprime deals. CDOs are extremely complex to value.

[\\$2 trillion in securitized real estate loans](#)

"I just happened across some "interesting" data in the current [H8 Fed report](#). A new entry suddenly appeared in line 34 (almost at the bottom) of the most recent report called "Securitized real estate loans".

The balance, under the section called "Large Domestically Chartered Banks", is blank in all prior weeks that I've searched and this week it's \$1.211 trillion... as if by magic.

I do know something about interpreting the Fed, and it strikes me that it's *possible* (no guarantees of course) that since they are now "securities" that the Fed could bail out the real estate and derivatives mess... if needed."

[Bear Stearns Fallout Continues](#)

James Cayne, Bear's long time chief executive, has said the bailout would not have "any material adverse effect" on the company's business. There are, however, already whispers of legal action by investors. While sophisticated investors would meet a "caveat emptor" wall if trying to retrieve funds, there is a suggestion Bear Stearns may have implored investors not to exit after the March crisis as increased value was expected ahead. Bear Stearns stock fell at least 4% in the after-market.

As the "worthless" news was breaking after market in the US, credit ratings agency Moody's announced it had placed under review for possible downgrade the credit ratings 13 tranches of Bear Stearns CDOs which are part of 8 deals issued over "first lien, fixed and adjustable rate, alt-A mortgage loans", CNN reports. Alt-A loans are what Australians know as "lo-docs" or "no-docs", issued to borrowers with low credit worthiness. Despite being of low quality, such mortgages are actually of a higher quality than "subprime" mortgages.

[Globalization creating a 'deadly brew' for national currencies](#)

In Ontario, embattled Ontario manufacturers rail about the suddenly airborne loonie. Members of the U.S. Congress want to bash China for fiddling with the yuan. And ordinary Argentines would rather hold just about any currency than their own.

So maybe it's time to rethink the whole idea of national currencies. That, at least, is the provocative thesis of Benn Steil, director of international economics at the Council on Foreign Relations in New York.

In an article in Foreign Affairs magazine, Mr. Steil suggests that scores of countries - from the Americas and Asia to Europe and the Middle East - should simply give up on their own currencies and embrace one of the world's global currencies, such as the euro or the U.S. dollar.

With the gold standard gone, marginal currencies simply can't survive against the sheer weight of globalization. Inflation and high interest rates are a constant threat.

"National currencies and global markets simply do not mix," Mr. Steil argued. "Together they make a deadly brew of currency crises and geopolitical tension and create ready pretexts for damaging protectionism."

Get rid of monetary nationalism, along with unloved currencies, and you'll rid the system of a major source of instability, he concluded.

"Give me control over a nation's currency and I care not who makes its laws."

Mayer Amschel Bauer Rothschild

[AAAsking for trouble](#)

In the depression-era 1930s, when credit worthiness was all that mattered, American government bonds were rated AAAAA—as if the more letters you attached to a borrower, the safer they would seem. In more recent times, the triple-A designation has done the trick. Whether attached to government debt, federal agencies or the strongest corporate borrowers, it has stood as a gold standard among ratings, lowering borrowing costs and reassuring creditors.

During the 1980s and 1990s, scarcity only enhanced its standing. The number of companies issuing such high-grade debt dwindled, as corporate-finance theory encouraged companies to borrow more heavily to increase earnings. According to Standard & Poor's (S&P), a rating agency, only six American non-bank companies carry a triple-A rating today, including Berkshire Hathaway and General Electric.

But the rating is coming in for some stick from politicians and pundits alike, because it has cropped up in connection with that most unsound of loans, subprime mortgages. These are anything but triple-A, but can be repackaged into securities via collateralised debt obligations (CDOs) in a way that makes default an extremely low mathematical probability. In the process, such ratings have made the agencies a great deal of money. Moody's, for example, made more than 40% of its revenues from rating structured products such as CDOs last year.

Marc Dann, attorney-general of Ohio, is investigating whether, in his words, the ratings agencies took part in fraud by bestowing triple-A ratings on structured products created out of subprime loans. Bill Gross, a fund manager at PIMCO, a bond-trading firm, likens the highest-rated tranches of CDOs to a Hollywood madame masquerading as a wholesome, all-American girl.

The ratings agencies are holding their ground. Cliff Griep, the chief credit officer at S&P, argues that ratings attempt to address only creditworthiness, not market risk, and are driven by fundamentals, not fluctuating prices.

But the questions being asked of the agencies are important because banks around the world have been filling their vaults with AAA-rated structured products ahead of international implementation of the Basel 2 regulations on bank capital. Under this new accord, a bank holding triple-A assets is allowed to keep less capital, enabling it to lend more. So banks have stocked up, especially on CDOs. If they were forced to sell securities that had been downgraded, liquidity could dry up.

[The Mortgage Lender Implode-O-Meter](#)



Since late 2006, 100 major U.S. lenders have "imploded".

[Surging loonie causes flap in US-Canada trade](#)

Tighter border controls since the terrorist attacks of September 11 2001 have also deterred Canadian and US day-trippers. Getting back and forth across the border "takes the edge off the experience", says Mr Woolford.

While several big exporters, especially in the forest products, steel and automotive sectors, have complained that the strong loonie is eating into profits, the Bank of Canada signalled last week that the appreciation suits its policy goals.

[In a dry time, plans for water projects flow](#)

Standing before a wind-swept, largely depleted Central Valley reservoir, Schwarzenegger said a second dry winter "will be catastrophic. It will be a disaster."

"We must get our act together now," he said. "We have to build."

The governor touted his \$6-billion plan to build two reservoirs and boost groundwater storage, rework the plumbing of the Sacramento-San Joaquin Delta, restore rivers and bolster conservation.

Schwarzenegger said his administration "loves conservation." He called it something that "we always have to do," and added that he limits his children to five-minute showers. But conservation alone, he said, will not stretch the state's water supplies enough to match the growth that is expected to add 24 million Californians in the next four decades.

[UK gets first desalination plant](#)

The UK's first desalination plant providing drinking water for Londoners and people in the south-east has been granted government approval. The plant in Beckton, east London, will start producing water sometime in 2009, in times of drought or low rainfall. The site will provide up to 140m litres of drinking water a day - enough for nearly one million people.

But critics say the plant is a "sticking plaster" solution to the water crisis. Planning permission for the plant was granted by the Department of Environment, Food and Rural Affairs and the Department of Communities and Local Government.

[Water quality is 'ticking time bomb'](#)

The water source that Ottawans - and most Canadians - rely upon is a public health ticking time bomb, but no one is paying any attention, three leading experts will tell a public forum in Ottawa today.

The water Ottawans and most Canadians drink is safe, but the experts told the Citizen in an interview yesterday that our rivers are so polluted, there could be serious health problems in the future if governments don't take urgent steps to improve water quality.

Meredith Brown, executive director of Ottawa Riverkeeper, said the fundamental problem with the Ottawa River - the main source of drinking water in the nation's capital - is its high level of contamination. She said everything from sewage, contaminated substances from sewage plants, pesticides, waste from pulp mills and minute amounts of pharmaceuticals - such as birth control pills - end up in the river and in our homes.

Ms. Brown said studies elsewhere have revealed incidences of "intersex," where the sexes of aquatic life such as frogs and fish, are changing in a way that makes it impossible for them to reproduce. Because no one level of government has total responsibility for the Ottawa River, environmental rules are not enforced and no studies are done to identify potential problems now and in the future, Ms. Brown said.

[Alberta rivers flooded with pollutants: report](#)

Several massive rainstorms in 2005 turned many Alberta rivers into polluted stews of bacteria, metals and pesticides, a newly released government report shows.

Four of the province's six major river systems -- the Bow, Oldman, Red Deer and North Saskatchewan -- rated "fair" between April 2005 and the end of March 2006, significantly lower on the water quality scale than in previous years.

[Icarus Flying II – wot no sun?](#)

A 2007 NASA satellite survey reports Global Dimming began to reverse around 1990. Clean Air legislation in the USA and Europe began to take effect by removing evermore dirty aerosol pollutants from our skies. So, will the future really be brighter? Yes – and here may lie a terrible catch. For it appears Global Dimming may well have been protecting us from something far worse.

For decades we appear to have been unwittingly living in a world where the cooling effects of our sooty pollutants have been damping down the warming effects of our gasses. Now by cutting Global Dimming without tackling carbon dioxide (CO₂) emissions, we may also be taking the brakes off Global Warming. David Travis' measurements after 9/11, gave us a brief glimpse into a world without Global Dimming. With governments doing far more to reduce aerosol pollutants than CO₂ emissions, we may all be in for a much hotter ride than expected.

By failing to notice the damping effect of Global Dimming over the past 40 years, we may have seriously underestimated the magnitude and speed of Global Warming. Unless governments act quickly and decisively to reduce both types of pollutants simultaneously, the future may hotter than we thought.

[Mediterranean drowning in a hidden sea of plastic rubbish](#)

The Mediterranean suffers more pollution from discarded plastics than any other sea, especially the north-west sector that washes up on holiday resorts in Spain, France and Italy, an ecological study has found.

Around 6.5million tons of rubbish lie below the surface of the world's oceans. The highest concentration by far - including almost 2,000 pieces of plastic per square kilometre - is in the Mediterranean, according to the study. It was carried out by Greenpeace, the environmental group, for the University of Exeter.

A separate Spanish study also predicts global warming will bring hurricanes to the Mediterranean, whipping usually tranquil waters into cyclones. This means the garbage may not remain on the sea bed for long.

[Gulf dead zone to be biggest ever](#)

Scientists say conditions are right for the zone to exceed last summer's 6,662 sq miles (17,255 sq km).

The dead zone is an area of water virtually devoid of oxygen which cannot support marine life.

It is caused by nutrients such as fertilisers flowing into the Gulf, stimulating the growth of algae which absorbs the available oxygen.

The volume of nutrients flowing down rivers such as the Mississippi into the Gulf has tripled over the last 50 years.

The annual event has been blamed for shark attacks along the Gulf coast, as sharks, along with other highly mobile species, flee the inhospitable waters.

Animals which cannot move simply die.

[UK: 'Disastrous' season for seabirds](#)

He said: "Some cliffs which should be packed with birds are just about bare as adult birds abandon the nest once their breeding attempt has failed. This is all linked to food availability, which can be disrupted for a number of reasons.

"We're fairly certain that on the east coast, rising sea temperatures are leading to plankton regime shifts, which in turn affects fish like sand eels - a major food source for seabirds."

[Dust, waste and dirty water: the deadly price of China's miracle](#)

Hundreds of millions of people are being made ill every year or dying prematurely from pollution caused by China's breakneck economic growth, a leading economic thinktank has concluded following an 18-month investigation.

The OECD study, prepared at China's request, draws on work by the government, World Bank and Chinese Academy of Sciences to spell out the scale of the ecological crisis now engulfing the country, poisoning its people and holding it back economically.

It says up to 300 million people are drinking contaminated water every day, and 190 million are suffering from water related illnesses each year. If air pollution is not controlled, it says, there will be 600,000 premature deaths in urban areas and 20m cases of respiratory illness a year within 15 years.

China's water quality gives the researchers greatest concern. One third of the length of all China's rivers are now "highly polluted" as are 75% of its major lakes and 25% of all its coastal waters. Nearly 30,000 children die from diarrhoea due to polluted water each year.

[Filthy as well as rich](#)

People in China do not need the OECD to tell them that their country has grown filthy as well as rich. Almost every day, the newspapers carry stories of toxic discharges, air quality warnings, health scares or disputes over pollution.

Even the capital city, Beijing - which is being dressed up for a "green Olympics" - cannot escape the dire consequences of breakneck growth. Today - like yesterday and the day before - the city's skies were dark with a sulphurous smog that was so thick that it seemed to swallow up skyscrapers. The air quality is sometimes so poor that schoolchildren are warned to stay indoors at break times.

Fly across the country and you find city after city enveloped in the same seemingly endless grey haze. Officials blame cement factories, coal plants and burgeoning traffic on the roads. Pollution is increasingly the source of friction. Domestically, it is seen as a cause for the rise in mass demonstrations.

[Asian parasite killing honeybees](#)

A parasite common in Asian bees has spread to Europe and the Americas and is behind the mass disappearance of honeybees in many countries, says a Spanish scientist who has been studying the phenomenon for years.

The culprit is a microscopic parasite called nosema ceranae said Mariano Higes, who leads a team of researchers at a government-funded apiculture centre in Guadalajara, the province east of Madrid that is the heartland of Spain's honey industry.

[Beetles gain taste for younger pine trees](#)

The mountain pine beetle, already munching its way through British Columbia's mature pine forests, is attacking smaller, second-growth pine trees previously believed to be less susceptible to the pest.

The potential damage has yet to be quantified, says the province's Chief Forester, who is working on a report of the beetle's impact on the province's timber supply expected to be released some time this summer. But with the beetle already expected to kill 80 per cent of the province's mature pine trees by 2013, the news isn't good.

[Pine beetle developing a taste for spruce](#)

The small beetle that has already eaten its way through about nine million hectares of pine forest in British Columbia with devastating environmental and economic impact is developing new appetites.

Researchers at the University of Northern B.C. in Prince George say the pine beetle, which since 1993 has unleashed an unprecedented natural disaster destroying about 40 per cent of the province's lodgepole pine, is now killing spruce trees as well.

“There were rumours before that pine beetles were not only killing spruce but successfully reproducing in spruce, and we have now observed that in Prince George and we have been trying to document what's going on,” Staffan Lindgren, a professor of ecosystem science at UNBC, said Wednesday.



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