



The Round-Up: August 17th 2007

Posted by [Stoneleigh](#) on August 16, 2007 - 7:29pm in [The Oil Drum: Canada](#)

Topic: [Miscellaneous](#)

Tags: [biofuel](#), [bond rating](#), [climate change](#), [credit crunch](#), [derivatives](#), [electricity](#), [natural gas](#), [oil sands](#), [security](#), [sovereignty](#), [subprime](#), [water](#) [[list all tags](#)]

TOD:Canada continues its coverage of the developing credit crunch, looking at how the liquidity crisis is playing out in Canada and how the subprime problem in the UK could be even worse than in the US. The mood of the markets continues to be an important factor, causing risk premiums to skyrocket and liquidity to dry up almost overnight. The US dollar is emerging as a beneficiary of the flight to quality, while the yen appreciates due to the unwinding of the carry trade. A rash of hedge fund redemptions is expected at the end of the third quarter.

On the Canadian energy scene, Peter Lougheed warns that a constitutional showdown appears to be shaping up between Alberta and the federal government over development of the oil patch. Dalton McGuinty's decision to close the coal-fired power plants in Ontario is criticised as bad policy, while one municipality holds a voluntary blackout day.

Water remains an issue round the world, as does the evidence of accelerating climate change. Sovereignty, particularly in the Arctic, and security are also becoming more prominent.



Source: [Minyanville](#)

[Hedge Fund Sell Outs Threaten Markets](#)

Today's the day the hedge funds get their sick notes. From investors feeling too sickened by market queasiness to stomach staying in.

Let me explain. Today is the last chance for people with money in hedge funds to give the standard 45 days' notice to withdraw it ahead of the fourth quarter. Such withdrawals could trigger further share price falls.

[Wall Street Geniuses Blow Up the Lab](#)

It's not the first time this has happened, yet Wall Street still isn't getting the message. One August day nine years ago, Russian bonds defaulted. A surprising result of this default was the spectacular failure of Long-Term Capital Management (LTCM), a hedge fund in Greenwich, Conn. Surprising because LTCM had nary a penny in Russian bonds. They nearly took the global financial structure with them.

Today we're seeing another improbable linkage. A number of hedge funds are failing; others are seeing returns plunge. Among these is Goldman Sachs's flagship Global Alpha Fund, which burned a quarter of its \$10 billion value over the last few weeks. And just as LTCM was free of the Russian debt that precipitated its collapse, Global Alpha was

not a player in subprime junk. Indeed, Global Alpha's problems have not come from mortgages at all, but from a portfolio of stocks.

[Only panic is left](#)

For years, greed has been the underlying force in the markets. Now fear is replacing it.

Once underway, fear is an even stronger force. While central banks try to hose down the market's fear-flames with money, it doesn't change the liquidity problem. Lenders fear to lend and borrowers fear to borrow. Money "in the system" is of no real help. Someone has to borrow it. Who will? We're back to being unable to push a string.

[Yen surges as carry trade unwinds](#)

A dramatic surge in the Japanese yen over recent days has cut off a key source of liquidity for the global asset boom, setting off a panic flight from emerging markets for the first time since the latest turmoil began.

Bourses tumbled across Asia where central banks intervened in several countries to stabilise their currencies, with contagion spreading to South Africa, Eastern Europe and Latin America.

Stock markets were down by 6.44pc in Indonesia, 4.08pc in the Philippines, 3.4pc in Singapore, 3.3pc in Taiwan and 2.9pc in Hong Kong. New Zealand's bourse plummeted to its lowest level in almost a year, while Brazil was off more than 2pc in early trading.

Interest spreads on Argentine, Venezuelan, and Ecuadoran bonds have all jumped by more than 40 basis points over the last two days. The South African rand hit a five-month low of 7.40 against the dollar yesterday.

Hans Redeker, currency chief at BNP Paribas, said the yen surge came as funds scrambled to unwind "carry trade" positions and had now become a critical factor in the worldwide financial crisis.

[Global Overview: Financial markets contagion spreading](#)

The mood in financial markets edged towards panic as investors continued to dump risky assets such as equities and high-yielding currencies in favour of the relative safety of government bonds on Thursday.

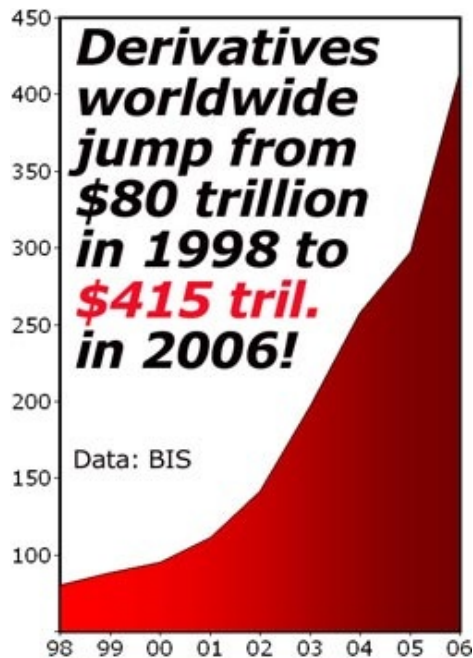
The Morgan Stanley Capital International World share index saw its decline from July's record high extend to 11 per cent - marking an official correction in global equities.

The high-yielding Australian and New Zealand dollars suffered their biggest one-day falls against the Japanese yen for two decades, while short-dated US government bond

yields hit their lowest levels since October 2005.

"What we are witnessing is a rapid unwinding of risk on a global scale," said Martin Slaney at GFT Global Markets. "The initial jolt from the US subprime fears has forced many hedge funds to reassess their risk profiles, so everything from equities to commodities and high-yielding currencies involved in the so-called yen carry trade [where investors sell low-yielding currencies to fund purchases of higher-yielding assets] are out of favour.

[Financial System in Jeopardy!](#)



In 1998, the last time the derivatives market nearly blew up, there were "only" \$80 trillion in derivatives outstanding worldwide, according to the BIS.

That was already huge.

But as I explained a moment ago, now the total derivatives outstanding has jumped to \$415 trillion, or over FIVE times more!

And just from 2005 to 2006, it surged by a whopping 39.5%, about TEN times faster than the growth in the global economy.

If the risks were spread among thousands of institutions, each with plenty of capital to back up its bets, this derivatives balloon might not be such a threat.

But the U.S. Government's Office of the Comptroller of the Currency (OCC) reports that, in the United States ...

Just FIVE banks control 97.1% of the derivatives in the entire U.S. banking system.

Worse, among these five banks, none — not ONE — has the capital to cover its net credit risk, the primary measure the OCC uses to evaluate the risks these banks are taking in their derivatives trading.

[US a paper tiger, says doomsayer](#)

Schiff says all this is a mirage. And in economic forecasting, timing is everything. Schiff's seemingly outlandish claims get traction, helped by a book he's written: *Crash-Proof: How to Profit From the Coming Economic Collapse*. It charts an almost conspiratorial tale of how the public have been fed lies over the state of the US economy for years. "The economic statistics put out by the US Government are propaganda, pure and simple," Schiff writes.

"Issued by government agencies, interpreted by spokespersons for the Government and the financial community ... the information we get has been manipulated to mould a public understanding favourable to the agenda of the powers that be." Schiff's prediction of economic doom has everything to do with the US mortgage and housing meltdown, a prophecy he made in the book before the latest market turmoil.

"The collapse of consumer spending, associated with higher mortgage payments and vanishing home equity, will plunge the economy into severe recession, further exacerbating the collapse in real estate prices, worsening the recession and continuing the vicious cycle," he says.

"The country will be a lot poorer as a result of the unprecedented dissipation of wealth and accumulation of consumer and mortgage debt that occurred during the bubble years. Before real estate prices can return to normal levels, they will first have to get dirt cheap."

He tells The Australian the latest market gyrations are evidence of the "beginning of the end of our economy".

"People call us the biggest economy in the world but it's false, we'll be lucky to be in the top 20 in two years' time."

[Credit problems are too big for the feds to fix](#)

Wall Street is hoping for a bailout of the reckless mortgage sector that violates the whole concept of capitalism. It won't work, because there's too much mess to clean up....

...One of the lingering problems of the Greenspan Fed, besides its legacy of bubble-blowing, is this idea that one should always be bailed out. However, as noted in the past, I believe that the problem is too big to bail out, and therefore it's not going to happen.

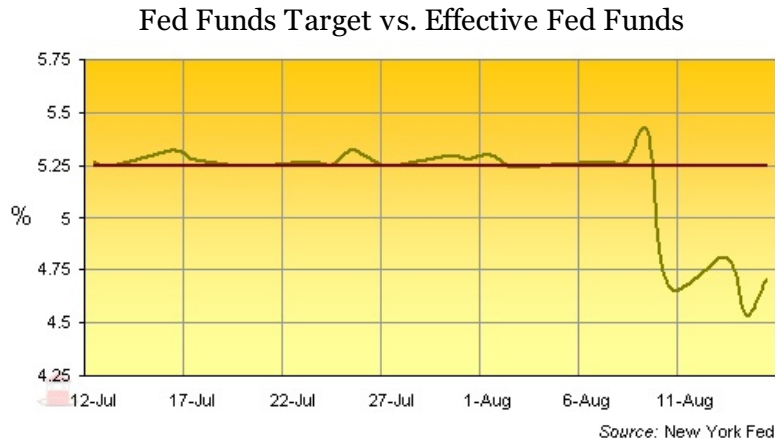
[Eurobanks may take months to reveal subprime woes](#)

European banks may take months to reveal the full extent of their exposure to risky U.S. subprime mortgages and other asset-based securities, possibly causing fears to persist of a credit crunch.

"The main problem for banks is trying to calm markets and pull themselves out of a downward spiral," said Simon Adamson at Creditsights in London....

...But fears have not yet receded that liquidity could dry up and hit routine lending, as investors rush to ditch investments linked to U.S mortgage markets but struggle to find buyers because of doubts as to the true value of these risky assets.

"The main danger is that these things become a self-fulfilling process. You have fear and because liquidity dries up it becomes more difficult to value securities," said Adamson.

[Well, Bless Poole's Beautiful Hide!](#)

Only a "calamity" would justify an interest-rate cut now, says St. Louis Federal Reserve chief William Poole.

"The daily effective federal funds rate is a volume-weighted average of rates on trades arranged by major brokers," says the New York Fed. And as you can, it's slipped sharply below target...closer to the current yield on 10-year Treasuries, in fact.

[Five Things You Need to Know](#)

Q: So, are you a genius, or what?

James Scurlock: It's funny, it really wasn't that difficult to understand. In some ways, it's just mathematics. Yet there are regulators and analysts and investment bankers who do this day in and day out for years and years, who were saying the opposite of what I was saying. But for someone like me to come in and spend six months snooping around this industry and come to a pretty clear conclusion about where it was headed, it just tells you it wasn't all that difficult.

Q: How do you think the crisis is being handled in Washington?

James Scurlock: I think it's been exacerbated by people like [Federal Reserve Chairman] Ben Bernanke and [Treasury Secretary] Henry Paulson and others coming out and saying, "Oh, subprime isn't contagious"... as if subprime borrowers were like lepers confined to some colony on an island and couldn't swim over and infect the rest of us... Now that it has spread, the party line is "The economy's strong and we'll power through this." But the only way you power through a crisis in our economy is by making sure people keep spending.

[Shoppers could be next](#)

Amid signs of a worsening crisis in Canada's commercial debt markets, analysts are warning that consumers could be the next in line to take a hit as the lenders that

provide loans for everything from furniture to cars crank up interest rates in response to the drying up of liquidity.

Yesterday, Quanto Financial Corp., a Montreal-based financial-services firm with \$5.75-billion of asset-backed commercial paper outstanding, failed to find buyers for new commercial paper. On Monday, Coventree Capital Group Inc., the biggest independent player in the Canadian securitization market, with a \$16-billion portfolio of loans, was forced to seek emergency funding for \$700-million of debt that had become due.

"This could potentially be catastrophic," said Adam Seanor, an analyst at Blackmont Capital Corp. "Fixed-income investors are curling up into a little ball and hiding."

If they don't regain confidence soon, the troubles that have brought the commercial paper market to a halt could spill over into consumer credit, with interest rates spiking on an array of loan types, from automobiles to furniture, Mr. Seanor said.

[Testing times for a complex \\$1,500bn industry](#)

Mr Swann manages structured investment vehicles (SIVs) for HSBC, which he says should be very high- quality, stable programmes that generate steady, moderate returns from a well diversified asset base over a long lifetime.

In a note in late-July, Moody's, the credit rating agency, described SIVs as "an oasis of calm in the subprime maelstrom" but, since then, there has been a large-scale rush for the exits in the asset-backed commercial paper (ABCP) markets that fund these and similar vehicles.

This placed huge strain on the banks that pledge back-up liquidity to SIVs and bank-run asset-backed conduits.

That strain emerged as the main driver behind the recent panic in the global overnight money markets that forced central banks to intervene and provide liquidity.

HSBC insists that its \$30bn SIV programme has tiny exposures to subprime-related assets and that it is still able to fund itself.

But funding such vehicles has been more difficult and costly recently - and with huge volumes of ABCP due to be refunded in coming days, the trouble is not yet past.

Barclays Capital estimates that €48bn (\$65bn) worth of paper is set to roll this week alone.

[Debtor Nation: The rising risks of the American Dream](#)

Trouble struck Mexico in 1995, Thailand, Malaysia, and other countries in 1997, and Argentina in 2001, after those countries borrowed vast sums in the international marketplace. Argentina before the crash had been a model developing nation and a darling of the IMF, closely following the fund's economic prescription for integration into the global system of finance and trade. But even the IMF could not save the country

from the destabilizing effects of international capital flows. When global investors realized that Argentina's debt load was unsustainable, they sold their assets, called in their loans, and exited the country. Overnight the Argentine peso plummeted in value against the dollar, the currency in which debt had been issued, and staggering obligations suddenly became unpayable. Argentines who had financed their mortgages in dollars lost their homes. There was a run on the banks, and the government imposed a limit on cash withdrawals. In a country abounding with wheatfields and cattle ranches, starving people began raiding garbage bags in wealthy neighborhoods.

Paul Blustein, a financial reporter for the Washington Post who wrote *And the Money Kept Rolling In (and Out)*, describes a vivid scene after the crash when a truck carrying Angus steers overturned on a highway: a crowd of machete-wielding shantytown residents slaughtered and butchered them, fighting each other for the bloody chunks of meat. He recounts stories of middle-class families riding a government-provided train into Buenos Aires each night to pick through garbage, searching for bottles, cardboard, and newspapers—anything that could be sold for recycling. This—in a country that had been prosperous, with no inflation and 6 percent annual economic growth.

[Countrywide fuels liquidity worries](#)

Countrywide Financial, the largest US mortgage lender, was on Thursday forced to use an \$11.5bn credit line from 40 of the world's largest banks, heightening fears of a global liquidity crisis.

Shares in the company fell 16 per cent in early US trading after the company said it drew down the \$11.5bn credit facility to boost liquidity after the global credit squeeze curbed its access to short-term financing from debt markets.

Late payments and defaults on US mortgages have reached their highest level in more than five years, prompting sharp falls in the value of mortgage-related securities. In a sign of how rapidly the crisis has escalated, Countrywide said as recently as August 2 that it had strong and diverse funding sources.

Rebecca Engmann Darst, an analyst at Interactive Brokers, said: "While Fed officials are proceeding as if a calamity has yet to occur in the US subprime mortgage market, it would appear that some in the market believe the calamity is simply yet to be fully appreciated."

[End of the U.S. consumer boom?](#)

The panic over the subprime loan mess has overshadowed a more disturbing trend: The U.S. consumer spending boom appears to be over, and with it the good times.

The world's largest economy may be on the brink of its first consumer-led recession in nearly two decades, according to Merrill Lynch economist David Rosenberg.

"There are plenty of signs now suggesting that we may be in the early stages of a consumer-led recession for the first time in 17 years," Mr. Rosenberg warned in a report to clients.

"The future is very likely in the hands of the consumer on Main Street, USA, and the latest sign posts are not encouraging."

He and other economists point to several alarm bells: Banks are tightening consumer lending standards, auto sales have slumped to a nine-year low and key retailers keep missing their sales targets.

Wal-Mart Stores Inc., a bellwether of the U.S. consumer, cut its profit forecast for the year Tuesday, citing economic pressures on shoppers in the U.S., Canada and Mexico.

"It is no secret that many customers are running out of money toward the end of the month," said Wal-Mart chief executive officer Lee Scott.

[Countrywide Bets the Farm](#)

- Countrywide tapped 11.5 billion of its credit line in one shot. Is there more than a little fear that its credit line might be reduced if it waited?
- What Countrywide does with that cash will determine whether the company lives or dies.
- One more debt downgrade by Moody's will cause a massive unwind of all of Countrywide's investment grade debt. That would further pressure share prices at the very least. Will that (or did that already) affect how Moody's rated that debt?
- Countrywide's exiting Alt-A and Jumbo mortgages will further impact the mortgage market. It is already very difficult (expensive) for anyone to get anything but a conforming loan with a significant down payment. This move by Countrywide will compound these already very significant problems.

[U.K.'s Subprime Crisis May Be Worse Than U.S.'s: Matthew Lynn](#)

We are now all familiar with the damage that can be done to financial markets by a subprime lending crisis. Global equity markets have taken a battering recently because of concerns about U.S. home mortgages.

So which country is next?

The U.K. has had a property bubble every bit as crazy as the U.S.'s. Valuations were stretched, and lending criteria loosened. And now arrears are starting to rocket, even while the economy remains healthy.

Not only does the U.K. face its own subprime crisis, it could be far worse than in the U.S.

[Moody's downgrades 691 mortgage-backed securities](#)

Moody's Investors Service said on Thursday that it downgraded 691 mortgage-backed

securities because of "dramatically poor overall performance."

[Fitch: \\$12.1B of U.S. Second-Lien RMBS on Rating Watch Negative](#)

Fitch lowered an unprecedented boom today on second-lien RMBS, putting every single second-lien transaction rated by the agency since 2005 under negative ratings watch. So many classes were put on watch, in fact, that it took two press releases to list everything.

[Rating agencies hit by subprime probe](#)

The European Commission is to investigate credit ratings agencies amid growing dismay over their slow response to the subprime mortgage crisis.

Officials in Brussels, and many other critics, believe the ratings agencies failed to act quickly enough to warn investors about the risks of investing in securities backed by US subprime mortgages – the sector whose troubles triggered the recent global market volatility.

In the US, Barney Frank, Democrat chairman of the House financial services committee, said he planned to hold hearings on the agencies' performance next month. He said the agencies had "not done a good job" in the current crisis.

Banks first warned about a potential crisis in subprime last year. But it was only this spring that S&P and Moody's started downgrading the ratings of mortgage-backed securities on a significant scale.

"If the rating agencies believe this is going to be business as usual, they are very wrong," one Commission official said.

"The securitised subprime mortgage market would not have grown to the extent that it did without the favourable ratings given by some agencies."

[Lessons From the Great Depression: A Letter from a former Banking President Discussing the Bubble](#)

The collective memories of many Americans believe and associate the Great Depression igniting from the heart of Wall Street. However, it is clear that many industries built around financial imprudence also failed during the Great Depression. Think of the many industries currently facing hard times with the housing decline: insurance companies, mortgage lenders, hedge funds, the auto industry, home remodeling centers, and many other housing associated industries. Can it be that for the past decade, we have been using the home as a center of economic prosperity? Clearly it has helped to a certain extent with unparalleled amounts of mortgage equity withdrawals. There are estimates from the FDIC that \$5 trillion in wealth has been directly linked to this housing boom.

[This is your subprime brain on drugs](#)

Can we blame Wednesday's stock market plunge on human neuroanatomy? Specifically, are we wired to be suckers for subprime loans? Just such a hypothesis is suggested by Jonah Lehrer at the [Frontal Cortex blog](#). Lehrer believes that neuroeconomics research demonstrating the physical roots of short term instant gratification helps explain why would-be homeowners are lured into mortgages that promise a couple of years of low payments before socking them with fat hikes in monthly payments that they can't afford.

[What's with the credit crunch?](#)

The credit crunch is spreading to Canada, causing a freeze-up in an esoteric but important area of the market known as the money markets — where companies and investors go to trade very short-term loans.

This has led to a plunge in the stock of one Canadian company — Coventree Capital Group Inc. — and concerns that money market funds could be hurt. The Bank of Canada is trying to step in and stop the carnage by making liquidity available, but so far it's not working.

What's going on, and why does it matter? And where could the contagion spread next?

[Credit woes spread to Canada](#)

Fear of a Canadian credit crunch hit Toronto stocks and the Canadian dollar Tuesday as a trust said it couldn't find the funds it needed to repay outstanding asset-backed commercial paper.

The warning, in a statement from Global Diversified Investment Grade Income Trust and MMAI-I Trust, was the second in as many days, putting Canada directly in the firing line of the U.S. subprime mortgage meltdown.

Dominion Bond Rating Services, Canada's main rating agency, said it was aware of 17 issuers that had sought funding under so-called market-disruption liquidity facilities, but it didn't know if they had received the funding requested.

[Credit crunch claims victim in Canada](#)

The global credit crunch claimed a Canadian victim yesterday, as financing company Coventree Capital Group Inc. saw its stock plummet on news that investors have turned

their backs on its \$16-billion portfolio of loans.

In a move that speaks to the market's newfound aversion to risk, Toronto-based Coventree reported yesterday that "unfavourable conditions" in credit markets meant it could not find investors for \$250-million of asset-backed loans that came due yesterday. The move knocked backed Coventree's stock price by 34 per cent.

Coventree's woes come on the heels of global debt market turmoil that has seen hedge funds blow up, France's largest bank, BNP Paribas, freeze withdrawals on three asset-backed funds and a government-based bailout of a German bank burned by mortgage investments.

Coventree, Canada's largest independent player in the \$120-billion domestic asset-backed security market, ran into trouble after investors big and small woke up to the risks that come with making loans, after years of carefree lending.

"Our attitudes towards risk are not always rational. Risk aversion is something we learned in the jungle, it's not always based on science," said Alan White, a finance professor at the University of Toronto's Rotman School of Management.

Prof. White compared what's happening now to the Russian debt crisis of 1998.

"You get these situations, where fund managers who are happy to hold Russian bonds one day are suddenly unwilling to hold that paper, at any price, the next day," Prof. White said. "I hate to use the word irrational, but there is an element of that kind of behaviour at play. People are scared."

[Coventree can't find buyers](#)

There is more trouble at Coventree Inc., the firm at the epicentre of the debt crunch in Canada – and another company that has bought debt repackaged and sold by the structured finance specialist is also sounding alarms.

Coventree said early Thursday that its "conduits" failed to find buyers yesterday for any of its asset-backed commercial paper (ABCP) but added that it is not sure whether this was because of continuing disruption in the market for the stuff or of technical difficulties at the depository that prevented the processing of purchase orders.

[TSX breaks trading records in a down-and-up day](#)

Amid a deluge of buy and sell orders, the trading was busier than ever before, the Toronto Stock Exchange announced.

The S&P/ TSX composite index, down as much as 585 points earlier, narrowed its loss to 200.06 points to close at 12,848.70. It was still down 1.5 per cent, with nearly all sectors lower.

The sell-off leaves the TSX about 1,775 points below the record high set July 19 and down about 60 points for the year as a whole.

The exchange said 708.05 million shares changed hands, eclipsing the previous record of 499.8 million set July 12, and there were 996,311 transactions, beating a record of 707,853 set on Aug. 10.

[Investors return to shelter of U.S. buck](#)

In one of the more curious fallouts from the recent stock market volatility, the U.S. dollar has been making a strong comeback. In fact, it is starting to look like one of the best ways to sit out the current messiness, which is leaving few investment portfolios unmolested.

Against the Canadian dollar, the U.S. dollar surged to nearly \$1.07 yesterday (or, looking at the exchange the other way, the Canadian dollar fell to US93.75¢, down US1.20¢), its biggest one-day leap in two-and-a-half years. It also rose next to the euro, bringing it to a six-week high.

Suddenly, the currency that everyone loves to hate is bouncing back from its lows. If volatility persists in financial markets -- and no one has sounded the all-clear signal yet -- the greenback's resurgence could continue.

[Clash over environment, oil industry coming: Lougheed](#)

Canada is facing a bitter constitutional clash over the environment and Alberta's oil industry that will threaten national unity and eventually end up in the Supreme Court of Canada, former Alberta premier Peter Lougheed warned Tuesday.

"The issue is there front and centre and coming to a head, in my view," Lougheed told a gathering of the Canadian Bar Association.

"In due course, soon in my view, the matter could evolve into a major constitutional battle."

One side is the Canadian public, deeply worried about climate change, putting pressure on the federal government for strong environmental protection legislation that will lead to reduced greenhouse gas emissions.

On the other side is the province of Alberta, which has constitutional power over its non-renewable resources, including the oil sands in Fort McMurray, which have been dubbed "Alberta's Runaway Train" because they are the fastest-growing source of greenhouse emissions in the country.

"It's a very major matter that threatens Canadian unity," said Lougheed, who seldom speaks out on public policy matters. While Ottawa, Alberta and the oil industry have historically clashed, Lougheed predicted that the bubbling battle "will be 10 times greater than in the past" because the public is more engaged than ever before.

[High-stakes battle looms over oil-sands pollution](#)

He told the Canadian Bar Association convention that a ferocious constitutional clash is all but inevitable, pitting the federal right to protect the environment against the provincial right to develop natural resources.

Mr. Lougheed - who was at the epicentre of disputes in the 1980s involving the national energy program and the patriation of Canada's Constitution - said that the clash will be "10 times greater" than federal-provincial conflicts of the past.

"The issue is there front and centre, and coming to a head," he said. "I think the issues we saw before - and I was involved in many of them - were important. I don't minimize them. But they aren't even close to the issue I have just described."

[A toxic pivot point](#)

I explored all this in my March 12, 2007 cover story for the Western Standard, "Target: Alberta's Oilpatch," in which I reviewed the old National Energy Program, and explained how some believe that Ottawa's designation (under the Paul Martin government) of carbon dioxide as a toxin should give the feds the power to regulate CO2 emissions in Alberta.

[Step carefully, Mr. Prentice: A powder keg awaits](#)

Stephen Harper had more in mind than putting a trusted face in an important role when he shifted Jim Prentice to the industry file. In corporate Calgary, there are raw feelings toward the Conservatives, and part of Mr. Prentice's task will be to soothe them.

That's quite a job. In 18 months, the Tories have alienated the oil patch with startling efficiency: first by body-slammng income trusts, then by getting all green-and-fuzzy on pollution and climate change. When Peter Lougheed, a former premier, predicts Ottawa and Alberta are headed toward a constitutional crack-up over oil sands development, he's not joking, and who do you think Albertans are going to side with? Good luck to the politician who has to defend the feds' position on that one - that's probably you, Jim Prentice.

Now add to that another potential powder keg - Chinese takeovers of Canadian oil assets - and his new cabinet job begins to seem less like a promotion than a sentence.

[Alberta's oil royalties could drop: report](#)

Alberta's share of oil royalties could decline while the federal government's take increases under a new royalty option for the oil sands proposed by the provincial

government, says one of the world's top oil consultants.

It's more evidence the Alberta government is full of "suckers," said NDP Leader Brian Mason.

He said the same report shows Alberta is losing potentially hundreds of millions of dollars annually in revenues it should collect. "They have lost sight of the interests of the people of this province," he said.

In his study for Alberta Energy, Calgary-based consultant Pedro van Meurs said the proposal – which would allow companies to calculate royalty payments on a choice of either the finished synthetic crude product or the tar-sands bitumen from which it is extracted – could lead to two significantly different outcomes....

...“It is very obvious that Alberta is faced with a very high level of royalty reduction, when under the Suncor and Syncrude terms companies opt for a switch to bitumen values from SCO values,” he notes.

He said the switch “will result in a drop of about 8% in the overall government take. However, that drop is only experienced by Alberta, the federal share actually goes up, since royalties are now deductible for tax purposes.”

[When it seems too good to be true: Alberta's oil sands seem as strong as ever -- until you dig](#)

Late last month, five trade unions representing 2,500 Alberta construction workers won strike mandates from their members, an unprecedented event: Alberta's construction unions have been regulated since 1982 by a labour code so complex -- or so business-friendly, in the unions' view -- that securing a strike mandate is akin to solving a Rubik's cube by committee. Because it is the first threat of job action in a generation, observers shrink from predicting what disruptions could take place in the oil sands, the sector most vulnerable to a strike. For oil sands executives, already beset by a labour crunch, the vote is a foul dose of castor. Alberta's construction workers are among the highest paid in Canada. A journeyman electrician, for example, earns as much as \$34 an hour. Yet the tradesmen look at US\$75-a-barrel oil and record-breaking profits by the likes of EnCana, which last year earned profits of \$6.4 billion, and argue they deserve more.

They make a good case. "This is not just about a boom-time-make-good-while-the-getting's-good," says Barry Salmon, a spokesman for the unions. "It is that much overused phrase of an 'overheated economy,' which has made housing, food, travel, gas - - almost everything -- that much more expensive." Inflation, which averaged 3.9 per cent in Alberta in 2006, jumped to 5.2 per cent in the first half of this year (the national average for the last 12 months was 2.2 per cent). Most workers, too, must leave their families for oil sands projects concentrated around far-off Fort McMurray, where many live in camps. Such circumstances make for resolute members.

[Blaming labor for peak oil problems](#)

Does it cross anybody's mind that the rising price of doing business in Alberta constitutes clear proof that cheap oil's days are over? That this is, in fact, a textbook

case illustrating the principle of peak oil? As supply tightens, the pressure to go after more difficult-to-exploit sources of energy will rise, and so, accordingly, will the cost of that energy.

Nope, much easier to blame labor for picking a bad time to demand a bigger piece of the action.

[Life After Natural Gas for the Canadian Sands](#)

"The problem is that the gas is going to run out," he said. But we already knew that Canadian natural gas production peaked years ago.

Before I could mention that, he continued, "This is going to really complicate things when they're going after the bitumen. Most of the oil companies out there are using huge amounts of natural gas during extraction."

He was referring to the SAGD (Steam Assisted Gravity Drainage) process. Basically, a company uses natural gas-powered plants to generate steam to heat up the bitumen. The stem is injected into one horizontal well. Once melted, the bitumen flows into a lower horizontal well and pumped to the surface.

But like my friend just mentioned, there's a massive amount of natural gas being used right now. It takes about one thousand cubic feet of natural gas to extract a barrel of oil. Naturally, the peaking of natural gas production will dramatically the cost to produce oil sands.

Since oil sands production are expected to triple within the next decade, this will mean a significant amount of trouble for producers...

[Energy industry stymied by cost of development](#)

The East Barents Sea alone is expected to contain more than 10bn boe and is the cheapest to exploit in the region, with production costs of about \$20 a barrel, according to Wood Mackenzie calculations. In other areas, such as Canada's Southern Arctic Island, production costs can be twice as high.

[The Hebron Gambit](#)

Unfortunately for Williams, any deal will require a very visible compromise of some sort on his part. Last year, he could have explained away any compromises. Having attacked the oil companies, tried to force Andy Wells onto the offshore board in order to force a development and having insisted he would never buckle, any compromise will be seen for what it is: Danny Williams doing something other than what he promised.

[Hebron: be cautious](#)

More to the point though, Williams needs the cash that will flow from development heading into the next election, likely his last. Money from Hebron can be used by Newfoundland and Labrador Hydro to help develop Williams' glory piece, Lower Churchill development, as a "go-it-alone" project.

Without Hebron cash, Williams will be forced to take the Ontario and Quebec proposal. That circumstance would demolish the carefully built facade of the resurgent and vibrant Newfoundland and Labrador which thrives under his leadership and which can tackle any project by itself, of course with Danny in charge. The illusive and sometimes illusory Lower Churchill project would become, in Danny's view, the antidote to the supposed failure of the Upper Churchill development if it is built with as little outside help as possible.

[Ontario's Coal Shut-Down Is Good Politics, but Bad Policy](#)

Ontario Premier Dalton McGuinty has once again pledged to shut down Ontario's four remaining coal power plants in Lambton, Nanticoke, Thunder Bay, and Atikokan. The four plants, which generate over 6,000 MW of electricity, account for 20 percent of Ontario's current supply of electricity, and are now slated for shut down in 2014. Demonizing coal is a popular pastime of late, and the public has generally become convinced that the coal which powers their televisions and computers is too dirty for the sensibilities of the environmentally-concerned. People cheered recently when the Lakeview Generating Station on the shore of Lake Ontario was demolished in a controlled implosion. Such optics are hard for politicians to resist.

The new shut-down pledge is McGuinty's third kick at this particular can. In 2003, he pledged to shut down coal-fired power plants by 2007 to reduce emissions of conventional air pollutants, such as particulate matter and mercury. Later, he changed the date to 2009, and now, he's pushed the date back, dropped the plan to scrub out regular pollutants, and refocused the mission on reducing greenhouse gas emissions.

Premier McGuinty brags that, "There is only one place in the world that is phasing out coal-fired generation. We're doing that right here in Ontario". But this is a boast that cuts both ways: if nobody else in the world thinks that coal power plant shut-downs are a good idea, who is more likely right--all the electricity-generating regions on Earth, or Premier McGuinty? In fact, the coal shut-down idea was bad in 2003, is bad in 2007, and will still be bad in 2014.

Two studies produced after the 2003 pledge to shut down Ontario's coal power plants demonstrated that shutting down these plants offers no health or environmental benefits, but is likely to impose significant hardship through higher energy costs and reduced energy reliability.

[Voluntary Blackout Day](#)

Many homes and businesses in Woodstock descended into darkness Tuesday, on the fourth anniversary of the massive blackout of 2003. It wasn't a case of history repeating itself, but instead the third annual voluntary blackout day was designed as a challenge for residents and businesses alike to conserve electricity.

"We're hoping residents will do their best to reduce their electrical consumption between noon and 8 p.m.," said Jay Heaman, manager of engineering, growth and conservation at Woodstock Hydro. "We have not set a reduction goal but I'm betting that we'll beat the five per cent target from the first voluntary blackout day."

[Cut industrial hydro rates: NDP](#)

Cutting industrial hydro rates by at least 15 per cent and reining in salaries and inefficiencies at Ontario's power agencies would provide a badly needed boost to the province's flagging manufacturing sector, New Democrat Leader Howard Hampton said today.

The all-in cost of industrial electricity in Ontario would be no higher than \$55 a megawatt hour — \$10 less than the current rate — if he were elected premier in the Oct. 10 election, Hampton told a news conference in Hamilton — a city that has endured significant manufacturing job losses of late....

...While Hydro One had profits of \$455 million in 2006, and Ontario Power Generation made \$490 million, that revenue ends up benefiting ratepayers by paying off existing debt and building hydro projects, said Steve Erwin, press secretary for Energy Minister Dwight Duncan.

"It's quite unclear how the NDP would cover the cost of its proposed rate cut, unless it meant scaling back on important energy projects in the province which are funded by agency profits," Erwin said.

[Canadian power worker says grid is 'String of Christmas Lights that's been Running Since the 1950s'](#)

"Just like they told us that our bridges were safe, they also want us to swallow that our power grid is in no danger of a system-wide, no-power-for-weeks crash", said tenured power grid expert Donald McCormick, a senior contractor with Hydro One, an Ontario, Canada based electricity provider.

Mr. McCormick indicated that in reality though, there's no question that the system of grids that supply power throughout the continent are in much worse shape than the majority of bridges, levees and borders in Canada and U.S. He has over two decades of experience in all aspects of power grid construction, infrastructure, maintenance, and distribution. During a recent interview, Mr. McCormick compared the 10 major interconnected power regions that comprise the "North American Grid", to a string of Christmas lights that's been active non-stop since the 1950s....

....He said that, from nuclear to coal, the majority of power generating plants operating across North America have momentous deficiencies, and the collective 10-region "power grid" has not been maintained properly (across the board) since the 1960s. Population growth has created a state in which North American power consumption is far greater than what is being yielded by current technological capacity to generate consumable energy. Mr. McCormick indicated that the infamous August 2003 blackout, in which the Northeastern U.S., Mid-Eastern U.S. and most of Ontario suffered stifling, life-interrupting blackouts, was just the beginning of something much more significant. In reference to the North American Power Grid Initiative, he said that it's nothing more than a case of, "too little, too late".

[Chalk River reactors a nuclear nightmare](#)

A key safety feature in two nuclear reactors northwest of Ottawa won't work despite years of attempted fixes, according to a new Canadian Nuclear Safety Commission report.

The resulting eight-year delay in putting the reactors into commercial production for life-saving medical isotopes could threaten Canada's world dominance of that \$3.7-billion global market.

It also risks Canada's international reputation as a nuclear technology exporter at a time when concerns about greenhouse gases and oil and gas energy supplies are making nuclear power an attractive option once again.

[Increasing Energy Costs Expected to Boost Interest in Anaerobic Digestion to Produce Energy](#)

A Manitoba swine producer says the province's low electricity rates are one of the factors discouraging the development of anaerobic digestion as a means of using livestock manure to produce energy on the farm.

Grunthal area based Topeaka Farms is developing a system which will use anaerobic digestion to produce biogas from swine manure for use as a source of energy on the farm.

Owner-operator Lauren Wiebe notes, while the use of biogas and other green energies have been highly subsidized in Europe, that hasn't been the case in Manitoba which currently enjoys the lowest electricity rates in Canada.

[The future of the world is nuts](#)

The perfect industrial food ingredient. Is there anything the world needs more? Fie on those who think biofuels will push Cheetos out of the affordable price range of America's hardworking middle class! The filbert will save us!

Let us glory in the potential of this far too often ignored nut.

Actually, instead of glorying ourselves, we will channel the enthusiasm of Philip Rutter, a farmer, hazelnut breeder, and the CEO and chief scientist of Badgersett Research Corp. in Minnesota. Rutter is convinced that hazelnuts will make a terrific biodiesel feedstock. As he enthused in a press release on Aug. 9, announcing plans to press oil from hazelnuts on Aug. 18 and run an engine on the fuel, "BRC has measured several of its NeoHybrids as having crop production potential nearly 300 percent that of soybeans, in terms of oil. "That's just huge!" says Rutter. "Soybean growers would throw parties if they could get a reliable 10 percent yield increase. We're at 300 percent!"

[Food and fuel for all: realistic or foolish](#) (PDF warning)

The critical challenge is not only to produce enough food to meet increased demand from population increase and expansion of biofuel production, but to do so in an environmentally sound manner. Achieving these dual objectives in a relatively short time period will require a substantial increase in research and extension with an explicit focus on increasing the rate of gain in crop yields while protecting soil and water quality and reducing greenhouse gas emissions. It is sobering to note that agronomists have never been asked to develop innovative management systems that both accelerate yield gains and protect natural resources.

[UN urges rethink on biofuels](#)

The FAO is urging the European Union and the US to lower trade barriers against ethanol imports; establish a system for bioenergy environmental standards; and provide more microcredit to farmers in developing countries to develop local biofuels.

Writing in today's Financial Times, Jacques Diouf, FAO director general, said: "Such measures would allow developing countries – which generally have ecosystems and climates more suited to biomass production than industrialised nations and often have ample reserves of land and labour – to use their comparative advantage."

[Orang-utans home destroyed for bio-diesel](#)

The Orang-utans of Borneo are facing an unprecedented threat as their habitat is destroyed to satisfy increasing global demands for bio-fuel.

As jungles are rapidly replaced by palm oil plantations, the great apes starve and are hunted, mutilated, burnt and snared by workers protecting their crops.

[Weather Thwarts Boost in EU Rapeseed for Biofuel](#)

An expected surge in European rapeseed output to meet biofuels demand was thwarted by drought or wet weather that hurt yields, analysts said on Friday.

[Scientists warn on climate tipping points](#)

Some tipping points for climate change could be closer than previously thought. Scientists are predicting that the loss of the massive Greenland ice sheet may now be unstoppable and lead to catastrophic sea-level rises around the world.

In drawing together research on tipping points, where damage due to climate change occurs irreversibly and at an increasing rate, the researchers concluded that the risks were much greater than those predicted by the latest report by the Intergovernmental Panel on Climate Change (IPCC).

If the Greenland ice sheet melted completely, for example, it would raise global sea levels by seven metres. According to the IPCC report, the melting should take about 1,000 years. But the study, by Tim Lenton of the University of East Anglia, showed the break-up could happen more quickly, in 300 years. Professor Lenton said: "We know that ice sheets in the last ice age collapsed faster than any current models can capture, so our models are known to be too sluggish."

His study identified eight tipping points that could be passed by the end of this century. They include the destruction of the Amazon rainforest, the melting of the west Antarctic ice sheet, and a collapse of the global ocean current known as the thermohaline circulation. If that circulation stopped, the Indian monsoons and the gulf stream could be shut down.

[China sounds retreat against encroaching deserts](#)

In all, more than 10,500 residents of Minqin County in northwest Gansu Province, along the ancient Silk Road, are due to be relocated over the next three years.

It's a tactical retreat after decades of cropping that exhausted scarce water resources. What matters now, say experts, is preventing this and other marginal land from turning into vast dust bowls where nothing grows.

"Minqin is an example of what's happening all over China. If we lose villages here, we can expect to lose villages in other places," says Sun Qingwei, a researcher on desertification at the Chinese Academy of Sciences in Lanzhou, the provincial capital.

For decades, China has been trying to hold back the deserts that cover one-third of the country and produce seasonal sandstorms that scour Beijing and other northern cities. Experts say deforestation and overfarming are to blame for desertification, though global warming may become a greater factor in the future, as the Tibetan glaciers that feed China's waterways are melting.

[World Faces New Threats of Water Scarcity](#)

The physical availability of water is being endangered by a rash of new threats, including climate change, increase in global population and the sudden growth of the water-hungry bioenergy sector.

Addressing the 17th annual World Water Week, executive director of the Stockholm International Water Institute (SIWI) Anders Berntell warned that 1.4 billion people now live in regions where there is a real, physical water scarcity, and an additional 1.1 billion live in regions where there is water stress due to over-consumption.

[Climate change: From 'know how' to 'do now'](#)

As long as we focus on measuring inherently uncertain empirical consequences, rather than on the certain first principles that cause them, we will overwhelm the consensus to "do something now" with the second order uncertainties of "first knowing the exact consequences of what we might someday do."

To put it another way, if you bail out of an airplane, you need a crude parachute more than an accurate altimeter. And if you also happen to take an altimeter with you, at least don't become so bemused in tracking your descent that you forget to pull the ripcord on your parachute.

[Biggest Great Lake Seen Heading For Record Lows](#)

Lake Superior, the world's largest body of fresh water by surface area, has declined precipitously over the last decade but plunged down another 30 cm (1 foot) in the last year alone amid an "extreme drought," putting pressure on both commercial shipping and fish habitats.

"That's a dramatic fall," Cynthia Sellinger, a hydrologist at the US Great Lakes Environmental Research Laboratory, told Reuters. "Lake Superior has been in and out of an extreme drought since 2003, and now the drought has got more extreme on the lake's western basin."

Lakes Huron and Michigan, into which Superior flows, are similarly low -- down 1 metre (3.3 feet) in the last ten years -- leaving dried out marshes and some inaccessible ports.

Meanwhile, some of the shallows and riverbeds used by fish species such as salmon and trout for spawning have dried up. In the last 30 years, precipitation has decreased while evaporation has increased, leading to higher water temperatures in the three upper Great Lakes. Lakes Erie and Ontario are the lower of the five, which make up the world's second-largest body of unfrozen, fresh water behind Russia's deep Lake Baikal.

[Lethal Heat Waves Threaten Urban Residents](#)

Heat kills. As many as 70,000 Europeans died during a heat wave four summers ago. Chicago, London, Athens and Tokyo have had epidemics of fatal heat stroke. Scientists predict more frequent heat waves as the world gets warmer.

But global warming isn't the only factor. Phoenix, the hottest city in the United States, is a classic illustration of another reason experts expect more killer heat waves: Big cities create their own heat.

It's called the "urban heat island" effect.

As cities grow, more of the landscape gets covered by pavement and buildings. They soak up the sun's heat all day long and radiate it during the night. Not only do people get no respite from the heat, it means the next day gets off to a hotter start. So temperatures are even higher in the afternoon.

['Cool farms' mask the extent of global warming](#)

You've heard of urban heat islands. Now researchers have confirmed the existence of their opposite: cool farm patches.

Whereas urban development generates pockets of hot air, irrigated fields tend to cool things down, they say - and there is evidence that the effects have been felt in California for over a century.

In areas of intensive irrigation, such as the Central Valley in California, US, these "cool farms" have counteracted global warming, say Céline Bonfils and David Lobell of the Lawrence Livermore National Laboratory in California. But they warn that a reduction in irrigation could spell the end of the relief that these regions have enjoyed.

[Arctic sea ice set to hit new low](#)

Measurements made by the US National Snow and Ice Data Center (NSIDC) showed the extent of sea ice on 8 August was almost 30% below the long-term average.

Because the region's melting season runs until the middle of September, scientists believe this summer will end with the lowest ice cover on record.

Researchers have forecast ice-free summers in the Arctic by 2040.

[Wolfowitz 'tried to censor World Bank on climate change'](#)

The Bush administration has consistently thwarted efforts by the World Bank to include global warming in its calculations when considering whether to approve major investments in industry and infrastructure, according to documents made public

through a watchdog yesterday.

On one occasion, the White House's pointman at the bank, the now disgraced Paul Wolfowitz, personally intervened to remove the words "climate change" from the title of a bank progress report and ordered changes to the text of the report to shift the focus away from global warming.

But the issue predates Mr Wolfowitz's appointment as president of the bank in June 2005. According to the Government Accountability Project (GAP), which has tracked efforts to censor debate on global warming, environmental specialists at the World Bank tried unsuccessfully to press for consideration of greenhouse- gas emissions in a paper written - but never published - in 2002.

It was politics that prevented the publication of that paper, according to one senior bank insider who spoke to the Los Angeles Times, and politics that has been the principal obstacle to progress since.

[After Russia and Canada, U.S. ship headed for Arctic](#)

A U.S. Coast Guard cutter is headed to the Arctic this week on a mapping mission to determine whether part of this area can be considered U.S. territory, after recent polar forays by Russia and Canada.

The four-week cruise of the Coast Guard Cutter Healy starts Friday and aims to map the sea floor on the northern Chukchi Cap, an underwater plateau that extends from Alaska's North Slope some 500 miles northward.

[Denmark dismisses attempts by Russia and Canada to claim Arctic](#)

A Danish minister on Tuesday dismissed moves by Russia and Canada to assert sovereignty over the Arctic, saying territorial claims in the potentially resource-rich region could not be settled by flag-planting and political visits.

The scramble for control of the Arctic intensified two weeks ago when Russia sent two submarines to plant a tiny national flag at the North Pole. Last week, Prime Minister Stephen Harper of Canada spent three days in the Canadian Arctic.

"No matter how many flags you plant or how many prime ministers you send, that doesn't become a valid parameter in the process," Helge Sander, the Danish minister of science, technology and innovation, said.

Denmark sent a team of scientists to the Arctic ice pack Sunday to seek evidence that the Lomonosov Ridge, a 2,000-kilometer, or 1,240-mile, underwater mountain range, is attached to the Danish territory of Greenland.

[The bus to Montebello](#)

If nothing else, the upcoming meeting in Montebello gives opponents of the SPP an opportunity to raise public awareness of these crucial matters. The Council of Canadians and other groups will hold forums in Ottawa, while activists with the local coalition of the Peoples' Global Assembly (PGA) have ambitiously devised ways of getting to the small town, from buses to bike convoys to canoes.

[Bush Administration Says Warrantless Eavesdropping Cannot Be Questioned](#)

The Bush administration said Monday the constitutionality of its warrantless electronic eavesdropping program cannot be challenged.

The government is taking that position in seeking the dismissal of federal court lawsuits against the government and AT&T over its alleged involvement in the once-secret surveillance program adopted after the Sept. 11 terror attacks. The strategy was first recognized by the U.S. Supreme Court in a McCarthy-era lawsuit. It has been increasingly invoked in a bid to shield the government from legal scrutiny.

Two senior Justice Department officials, speaking on condition of anonymity in a teleconference with reporters, reiterated the administration's position that it was invoking the so-called "state secrets privilege" in arguing that the 9th U.S. Circuit Court of Appeals must dismiss the cases because they threaten to expose information authorities say is essential to the nation's security.

"The case cannot be litigated in light of the national security interest involved," one official said.

[U.S. to Expand Domestic Use Of Spy Satellites](#)

The U.S.'s top intelligence official has greatly expanded the range of federal and local authorities who can get access to information from the nation's vast network of spy satellites in the U.S.

The decision, made three months ago by Director of National Intelligence Michael McConnell, places for the first time some of the U.S.'s most powerful intelligence-gathering tools at the disposal of domestic security officials. The move was authorized in a May 25 memo sent to Homeland Security Secretary Michael Chertoff asking his department to facilitate access to the spy network on behalf of civilian agencies and law enforcement.

[NYPD warns of homegrown terrorism threat](#)

Average citizens who quietly band together and adopt radical ways pose a mounting threat to American security that could exceed that of established terrorist groups like al-Qaida, a new police analysis has concluded...

...The Internet also provides “the wandering mind of the conflicted young Muslim or potential convert with direct access to unfiltered radical and extremist ideology.”

“The Internet is the new Afghanistan,” Kelly said. “It is the de facto training ground. It’s an area of concern.”



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