

# The Oil Drum: Canada

DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

## The Round-Up: September 4th 2007

Posted by [Stoneleigh](#) on September 4, 2007 - 6:44am in [The Oil Drum: Canada](#)

Topic: [Miscellaneous](#)

Tags: [climate change](#), [credit crunch](#), [debt](#), [environment](#), [housing market](#), [liquidity](#), [pollution](#), [water](#) [[list all tags](#)]

This is a guest Round-Up by [ilargi](#).

Today, we change our focus (just) a little. Recently, we've paid much attention to finance. Still, while many see a toss-up now for which might hit us first, energy or economy, the prize may well go to the third contender: the earth.



AFP - Jeff Haynes

We were thinking about this, even before the Times Comprehensive Atlas of the World published an impromptu edition. Ice caps, lakes and shorelines simply change too fast, and maps become outdated: the world no longer looks the way it did only 4 years ago. The editor-in-chief: "We can literally see environmental disasters unfolding before our eyes."

Still, we were already noticing articles on a wide range of climate issues, from just the past 4-5 days, and without even searching for them.

Global food prices set to rise by 50% in 5 years. Australian farmers pay 50 times more for irrigation water than in 2002. California cuts off water to farmers to save fish species, French wine growers harvest grapes 8 weeks earlier than in 1978. Russia considers a wheat export ban. Holland: bread prices to rise 20% next year. Milk named the new oil. UK: many crops just drowned. [insert deep breath] Eastern Europe, including Ukraine, had another crop-killing sweltering summer. Australia relives last year's drought (and this time may not recover). The UN predicts a global food crisis. Topsoil vanishes at record pace. 2008 declared the Year of the Frog: up to half of amphibian species could be wiped out in coming years - the biggest mass extinction

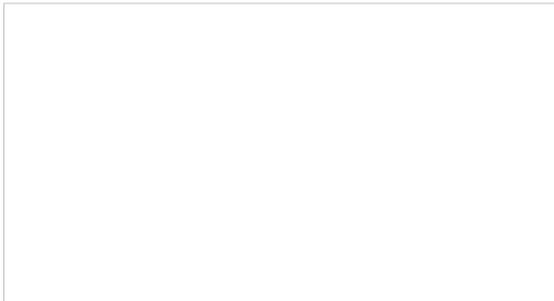
since dinosaurs disappeared. North American songbirds: going going gone, and we all know where our bees are by now. Not here.

*Satellite images of the Aral Sea 1973-2004: the vast saltwater lake has retreated as a result of river damming and been turned green by pollution.*



None of the above mentions Africa and Asia, did you notice? Once we start there, we a/ run out of space, and b/ make people think climate change is not here and not now. It is. And it's much worse than we, facilitated by IPCC reports and Al Gore love-ins, like to think. "Will sea levels rise by 59 cm or 25 meters?" says another headline for a James Hansen article. Well, why don't we accept the middle ground? Better safe than sorry, right? Agreed, then, 12.795 m (42 ft) it is.

In Canada, we're headed for 2 trade-offs: the world's most polluted mammal, the beluga, makes way for the pine beetle, while the Prairies go from grass to shrubs.

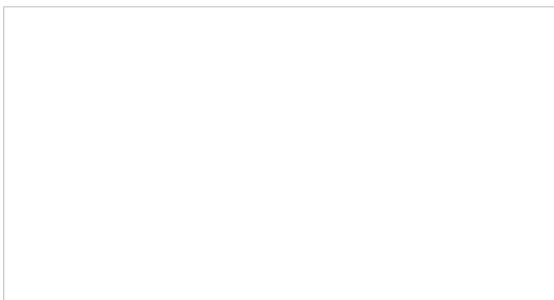


*Images showing how Lake Chad has shrunk: Left 1972, right 1987.*

We are being lured into complacency by 'scientific' predictions and political announcements for faraway abstract dates like 2050 or 2100. But if Hansen's only half right, it's time to seek 'true' higher ground. Today. No amount of oil, and no amount of money, will ever bring back a million extinct species, or put the ice back on Greenland or Kilimanjaro.

[Times Atlas shows effect of global warming](#)

Images showing deforestation in Iguacu, South America taken 20 years apart: Left 1973, right 2003



Images showing how Lake Chad has shrunk: Left 1972, right 1987

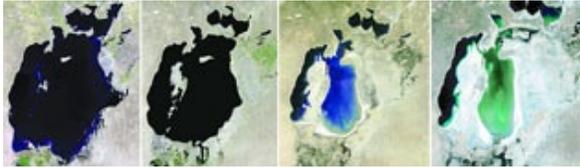
Cartographers of the Times Comprehensive Atlas of the World have had to re-draw coastlines and reclassify land types because of the effects of global warming.

Since the atlas was last published four years ago, sea levels have lowered in some cases and risen in others while ice caps have shrunk and lakes have almost disappeared.

The atlas's editor-in-chief, Mick Ashworth, said: "We can literally see environmental disasters unfolding before our eyes. We have a real fear that in the near future famous geographical features will disappear forever."

The main culprits, he added, are climate change and ill-conceived irrigation projects.

### [Vanishing lakes prove impact of man](#)



Satellite images of the Aral Sea, taken between 1973 and 2004, show how the vast saltwater lake has retreated as a result of river damming and been turned green by pollution. *Picture: PA/Times Comprehensive Atlas of the World*

A generation ago it was a vast deep blue sea teeming with life. Now the Aral Sea is sick and green and a fraction of the size it once was.

What was once a living mass of water brimming with fish providing a living for the thriving fishing villages on its shores is now, 40 years later, a slimy dark green mess suffocated by pollution and vast swathes of salt mountains.

These images, from the latest edition of one of the world's most authoritative atlases, show the stark changes global warming and mankind have wrought on the face of the planet.

### [Record water prices as farmers try to save crops](#)

The price -- 50 times levels five years ago -- has doubled in the past three weeks as farmers snapped up tradable water allocations in an effort to keep permanent plantings alive until hoped-for spring rains arrive.

At the new price, it now costs farmers \$50 to buy barely enough water to fill the equivalent of a small backyard swimming pool.

The price spike came as federal Water Resources Minister Malcolm Turnbull warned yesterday that the Murray River could dry up altogether, jeopardising Adelaide's water supply.

"My big anxiety is that one year the Murray will run dry," Mr Turnbull told ABC radio in Adelaide. "You are describing a nightmare scenario that could become a reality."

### [California: Water limits imposed to save fish](#)

State water managers said after Friday's ruling that they were still reviewing it to

determine what it would mean for California's water supply.

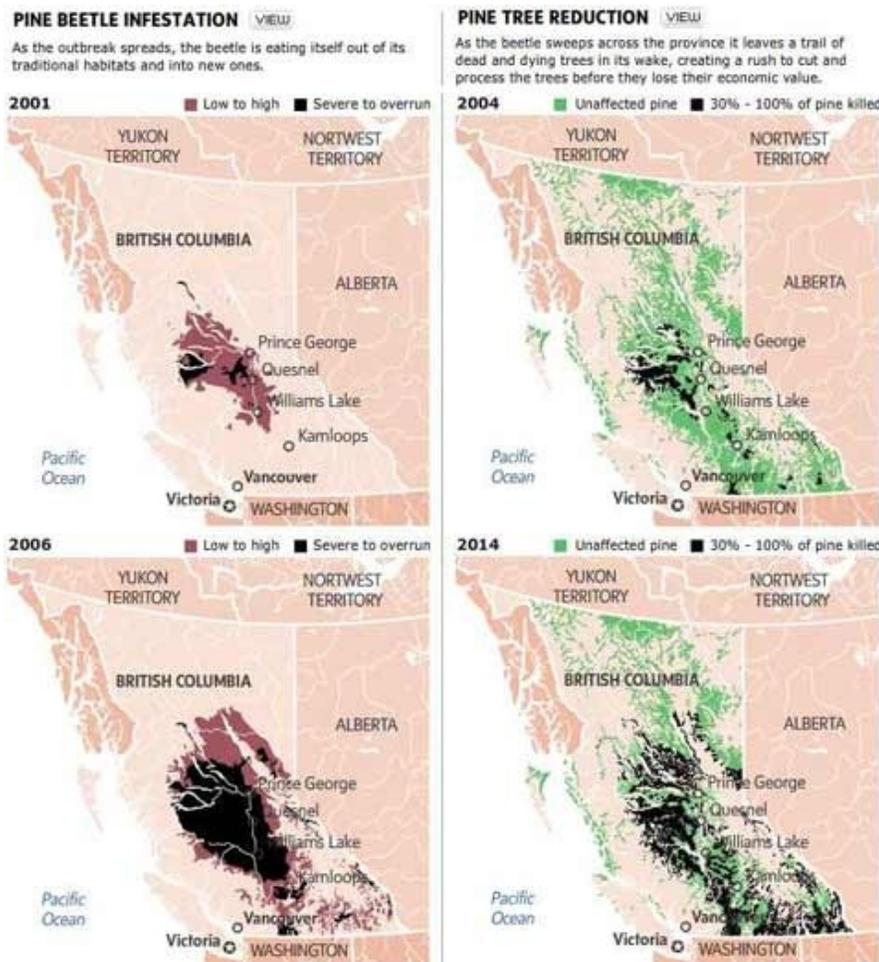
Pumps operated by the Central Valley Project -- operated by the U.S. Bureau of Reclamation -- send water to farmers in the agricultural valley south of the delta. The State Water Project -- operated by the California Department of Water Resources -- delivers the water to urban and rural water users as far south as Los Angeles. The water serves more than 25 million Californians and thousands of acres of crops.

In a year with an average amount of precipitation, about 6 million acre feet of water is pumped from the delta, and up to one-third of that could be lost under Wanger's order, said Jerry Johns, DWR's deputy director. An acre foot is enough to put one acre under one foot of water.

Tim Quinn, who heads the Association of California Water Agencies, said the ruling would have a serious impact in a state already coming off a dry winter and spring. Some districts have already ordered conservation measures and tapped into their water reserves, he said.

"A sober assessment of this says it's a very large deal," Quinn said. "We are not only losing supply here; you are greatly compromising the tools we have developed to deal with water shortages."

[The pine beetle's deadly march](#)



At night, you can hear them moving in the trees.

They've swept through parks and golf courses and ranchland and caught thermal currents to fly on the jet stream. They've colonized an area 1,200 kilometres long and 575 kilometres wide, nearly the size of Sweden. They're about the same size as a grain of rice but can kill a tree 10 storeys high.

And perhaps scariest of all, they're stealthy. One day, a tree looks fine. The next, it's been hit by nature's version of a drive-by shooting, left with tiny drifts of sawdust at its base or looking as though it's been pelted by popcorn because "pitch tubes" – blobs of sap that are the tree's natural defence – have sprung up on its bark.

From a helicopter flying west of Williams Lake, B.C., over the majestic Chilcotin Plateau and seemingly endless waves of dead, red trees, the mountain pine beetle appears nothing less than invincible.

In fact, it's not: the beetle remains vulnerable to fire, freezing temperatures and predatory birds. It can also be killed by cutting down infested trees. But in British Columbia at least, it has proved virtually unstoppable.

"I've been here all my life, and it makes me a little bit sick to my stomach to see it," says Lee Todd, a logging contractor and helicopter pilot who works this region, six hours by road north of Vancouver.

"Our beautiful green forest is gone. It's just gone.

### [In Northern France, Warming Presses Fall Grape Harvest Into Summertime](#)

On a cobweb-encrusted rafter above his giant steel grape pressers, René Muré is charting one of the world's most tangible barometers of global warming.

The evidence, scrawled in black ink, is the first day of the annual grape harvest for the past three decades. In 1978, it was Oct. 16. In 1998, the date was Sept. 14. This year, harvesting started Aug. 24 -- the earliest ever recorded, not only in Muré's vineyards, but also in the entire Alsace wine district of northeastern France.

### [Big rise predicted in Asia-Pacific greenhouse gases](#)

The study was presented by Prime Minister John Howard at a news conference to coincide with a week of meetings leading up to a summit of the 21-member Asia Pacific Economic Cooperation (APEC) forum.

It is based on a projection that APEC economies will grow by an average of 3.0 percent a year, with a resulting increase in energy consumption of around 140 percent.

Fossil fuels which produce greenhouse gases provide the bulk of APEC energy and are projected to continue to do so through to 2050, the study says.

'If current policy settings are continued, it is projected that energy supply in the APEC

region in 2050 will be sourced from: coal 29 percent, oil 31 percent, gas 25 percent, nuclear nine percent, hydroelectricity two percent and biomass and other renewables four percent.'

### [The great global coal rush puts us on the fast track to irreversible disaster](#)

If any credible environmentalist should be speaking the hardened language of priorities, one much-overlooked story surely deserves a lot more attention: what may soon be known as the new coal rush, and developments so at odds with the imperatives of climate change that they suggest a fast track towards irreversible disaster. The ubiquitous reduction of green politics to ethical consumerism means we'd probably rather carry on talking about cars, thermostats and lightbulbs. Faced with a resurgence that spans most of the planet, even the most righteous green activist could be forgiven for feeling powerless. No matter; what with skyrocketing gas prices and the fractious state of geopolitics, the stuff responsible for a quarter of the world's CO<sub>2</sub> emissions is on a roll, which surely represents our biggest environmental headache of all.

China, that rapidly advancing dystopia where rivers run black and miners are killed at the rate of 5,000 a year (witness this month's coverage of the 180 trapped and probably killed in Shandong province, and the two brothers who dug their way out of a collapsed shaft near Beijing), is building an average of two coal-fired power stations a week, and in six years has doubled its annual coal production. India will construct more than 100 coal-fired plants over the next decade. Panicked by the possible policy repercussions of George Bush's departure, US power corporations are desperately pushing ahead with plans for about 150 coal-fired stations and leaning hard on presidential candidates - as evidenced by Rudy Giuliani's recent suggestion that the US should "increase our reliance on coal".

Moreover, the new coal rush is truly global: in the next five years, 37 countries - among them plenty of Kyoto signatories - will build additional coal-fired capacity, while world coal production heads towards a peak that will apparently materialise in about 25 years' time.

### [Vast ice island trapped in Arctic](#)

The Ayles Ice Island changed the Arctic map by breaking free from the Canadian coast two years ago.

Scientists have been tracking the progress of this monster iceberg amid fears that it could edge west towards oil and gas installations off Alaska.

The creation of the island is seen by many scientists as a key indicator of the rapid warming of the Arctic.

Ayles Ice Island is vast, measuring about 16km (10 miles) long and five kilometres (three miles) across.

### [Spreading deserts threaten world food supply](#)

Spreading deserts and degradation of farm land due to climate change will pose a serious threat to food supplies for the world's surging population in coming years, a senior United Nations scientist warned on Friday.

M.V.K. Sivakumar of the U.N.'s World Meteorological Organisation (WMO) said the crunch could come in just over a decade as all continents see more weather-related disasters like heat waves, floods, landslides and wildfires.

"Should we worry about land being degraded? Yes," Sivakumar, who leads the WMO's agricultural meteorology division, told a news conference in Geneva.

"Today we feed the present world population of 6.3 billion from the 11 per cent of the land surface that can be used for serious food production. The question is: Will we be able to feed the 8.2 billion that we expect to populate the globe in 2020 if even less land is available for farming?," he said.

### [Great Wall could be lost to sands of the desert](#)

Sandstorms in northern China are reducing large sections of the Great Wall to rubble. Archaeologists say whole chunks of one of the seven wonders of the world could be gone in 20 years, swallowed up by the Badain Jaran desert.

More than 20 centuries old, the Great Wall once stretched 3,980 miles through China, from Shanhaiguan Pass in the north-eastern province of Hebei to Jiayuguan Pass in the north-western province of Gansu. The wall was originally built to defend China against invasion by northern nomadic tribes.

About 310 miles from the Jiayuguan Pass lies Minqin county, where 37 miles of the wall is disappearing rapidly, a victim of extensive farming since the 1950s, which has sapped underground water and destroyed the local ecology.

### [Food prices set to surge 50 per cent within five years](#)

The price of milk has risen 20 per cent in the past year, says Bill Barbour, and he should know. He's the investment manager at the DWS Global Agribusiness Fund, a \$1.6 billion fund from Deutsche Bank that was formed last year to capitalise on what he calls "Agflation" — the sudden and irreversible upward momentum in food prices which is going to change the world as we know it.

Australian milk and dairy prices are bounding ahead and wheat prices are at an all-time high.

In China pork prices are up 90 per cent, in Britain food prices are growing at their fastest in a decade, in Mexico a sudden lift in the cost of flour for tortillas caused a riot a few months ago.

I had barely digested this news about food price inflation when two of the biggest food companies on the stock exchange reported annual results. At Goodman Fielder, CEO Peter Margin talked of a "perfect storm" of higher wheat and oil prices; at Futuris — owners of Elders Rural — CEO Les Wozniczka suggested food prices could rise by 50 per cent in the next five years.

What is driving food prices higher? A bunch of factors has combined at the same time. In Australia there is drought, which reduces supply against unchanged demand. ANZ's chief economist Saul Eslake points out that the effect of the drought is only temporary: longer term falling EU subsidies will be a bigger driver of higher milk prices.

But a more important global force is climate change — or at least developments around climate change, such as the new limitations on land use and the push (especially in the US) to replace petrol with biofuel.

### [2008 Declared Year of Frog to Save Amphibians](#)

Conservationists from around the world have declared 2008 the Year of the Frog to highlight their new campaign to save threatened amphibians from extinction.

The World Association of Zoos and Aquariums (WAZA) said on Friday that up to half of amphibian species could be wiped out in coming years through habitat loss and climate change -- the biggest mass extinction since dinosaurs disappeared.

"It's imperative that the world zoo and aquarium community plays an active role in working to save the planet's critically endangered amphibian species," said WAZA president Karen Sausman following the decision at a meeting in Budapest.

As part of the campaign, which needs to raise up to US\$60 million in funding, WAZA also set up a petition calling on all governments to take action to beat the amphibian crisis and agreed to an Amphibian Ark captive breeding programme.

### [Pollution stunts Canada's beluga whales](#)



As well as banning the hunt, the government in the 1980s restricted the use of chemicals such as the toxic pesticide DDT and the industrial chemical PCB, which were found in beluga carcasses washed up on the Saint Lawrence's banks.

These measures were supposed to allow the beluga population to grow by three percent a year. But 25 years on, the numbers in the river have not changed, staying at between 1,000 and 1,200, says Veronique Lesage, a researcher at the Canadian fisheries ministry.

Meanwhile, other chemical threats have flowed in.

"The beluga is currently accumulating the biggest load of persistent contaminants," chemicals that do not break down quickly, said Michel Lebeuf, a specialist from the Maurice-Lamontagne research institute.

His team analysed the carcasses of beluga over 15 years and estimates that the traces in the fat of the whale of chemicals banned in the 1980s have fallen little -- in fact, they remain "still very significant."

### [21st Century May Belong to the Shrub](#)

As atmospheric carbon dioxide levels continue to climb shrubs and other woody plants will likely dominate grasslands, altering pastoral lifestyles around the world, a U.S. study has found.

In the first experiment of its kind done on native grassland, U.S. scientists artificially doubled carbon dioxide (CO<sub>2</sub>) levels over enclosed sections of prairie in Colorado, a state in the western United States, for five years. To their surprise, one shrub species, *Artemisia frigida* -- commonly known as fringed sage -- thrived under those conditions. In fact, it grew 40 times faster than normal, dominating other plant species.

"This kind of response to higher CO<sub>2</sub> levels is almost unprecedented," said Jack Morgan, a plant physiologist at the U.S. Department of Agriculture, and lead author of the study, published Aug. 28 in the 'Proceedings of the National Academy of Sciences' (PNAS), a science journal.

"Fringed sage is a minor species on the landscape normally. We were not expecting to see this," Morgan told IPS.

Grasslands of various types cover 40 percent of the world's land area and provide grazing for domestic livestock. According to 2005 figures from the United Nations Food and Agriculture Organisation, pastoral areas also occupy 40 per cent of Africa's land mass, and support most of the 235 million cattle on the continent. Cattle cannot eat woody plants, but thrive on grass.

Many parts of the world have experienced an invasion of woody shrubs over the last 100 to 200 years, Morgan added.

### [Prairie grasslands could soon fade](#)

The greenhouses with extra CO<sub>2</sub> produced 40 times more than the normal amount of fringed sage, a woody plant that grows from 10 to 60 centimetres high. The change took place over five years.

"A 40-fold increase in biomass (amount of the plant material) is huge," said lead researcher Jack Morgan of the USDA.

Elk and antelope will eat this plant, but cattle won't. And other experiments suggest other types of sage and small shrubs might also invade grasslands as the atmosphere changes.

This is more than a North American problem, the scientists said. It's likely to affect grasslands used for grazing by all kinds of livestock in many parts of the world. These are mostly lands too dry for most farming, but good for grazing.

Morgan says the slow invasion of woody shrubs has been happening for as much as 100 to 200 years, and has been reported in many parts of the world.

"That's one of the major points in this paper. Most people, when they hear climate change discussed, think it's always about the future," he said.

"CO<sub>2</sub> has been going up for the past couple of hundred years, so this relates to changes that are already under way."

Past analysis has blamed these changes on overgrazing and bad land management, he said. The sage is more common in degraded grasslands.

### [Global food crisis looms as climate change and population growth strip fertile land](#)

Climate change and an increasing population could trigger a global food crisis in the next

half century as countries struggle for fertile land to grow crops and rear animals, scientists warned yesterday.

To keep up with the growth in human population, more food will have to be produced worldwide over the next 50 years than has been during the past 10,000 years combined, the experts said.

But in many countries a combination of poor farming practices and deforestation will be exacerbated by climate change to steadily degrade soil fertility, leaving vast areas unsuitable for crops or grazing.

Competition over sparse resources may lead to conflicts and environmental destruction, the scientists fear.

### [Dirt Isn't So Cheap After All](#)

Soil erosion is the "silent global crisis" that is undermining food production and water availability, as well as being responsible for 30 percent of the greenhouse gases driving climate change.

"We are overlooking soil as the foundation of all life on Earth," said Andres Arnalds, assistant director of the Icelandic Soil Conservation Service.

"Soil and vegetation is being lost at an alarming rate around the globe, which in turn has devastating effects on food production and accelerates climate change," Arnalds told IPS from Selfoss, Iceland, host city of the International Forum on Soils, Society and Climate Change which starts Friday.

Along with many other international partner institutions, Iceland is marking the centenary of its Soil Conservation Service by convening this forum of experts.

Every year, some 100,000 square kilometres of land loses its vegetation and becomes degraded or turns into desert.

"Land degradation and desertification may be regarded as the silent crisis of the world, a genuine threat to the future of humankind," Arnalds said.

### [China: River Pollution Threatens Drinking Water of 86 Million People](#)

The Laodao River runs 141 kilometers and covers 23 townships with a population of 86 million. It serves the agricultural irrigation, drinking water and industrial uses of the population. It also serves as the only drinking water source for the surrounding area, the Changsha City economic development area, and seven Biomedical and Research Parks.

Official figures show that all major rivers in Liuyang City, such as Liuyang River, Laodaohe, and Nanchuan River are contaminated. Liuyang City is reported to annually generate at least 12 million tons of rural sewage and more than 10 million tons of industrial waste water. As a result, the quality of drinking water is increasingly deteriorating.

### [278 cities suffer untreated sewage](#)

More than half of the population is living in an environment where sewage is not treated, an expert said.

By the end of 2005, 278 cities across the country had no sewage treatment facilities, including eight with a population of more than 500,000, Zhao Baojiang, chairman of the China association of city planning, told a recent conference on sustainable sanitation held in the Inner Mongolia Autonomous Region.

About 5,000 administrative towns and 20,000 market towns also had no sewage treatment facilities, he was quoted as saying by [www.xinhuanet.com](http://www.xinhuanet.com).

Water pollution is deteriorating, but orders of the State Environmental Protection Administration to reduce the pollution are being disregarded in some cities, Zhao said.

### [Moscow considers wheat export ban](#)

Cereals traders said Moscow was contemplating either a partial ban on wheat exports or to introduce a prohibitive export tariff to rein in foreign sales. A decision could be made in the first two weeks of September, the traders added.

Moscow's concern comes as other food-exporting countries, such as Ukraine and Indonesia, try to rein in foreign sales amid rising prices.

Ukraine, the world's sixth largest wheat exporter, introduced in June prohibitive cereal export tariffs. Indonesia, the world's second largest palm oil exporter, last week raised to 10 per cent its export tariff on crude palm oil to cool domestic prices.

European-based cereal traders said the mere discussion of an export tariff would limit Russian foreign sales. Russian merchants would avoid new export commitments on fears that the sales could be taxed and unprofitable, the traders said.

The discussion of an export ban is also fuelling panic buying by some food-importing countries, such as Egypt and India, traders said.

### [Credit turmoil 'has hallmarks of bank run'](#)

The current turmoil in the financial markets has all the characteristics of a classic banking crisis, but one that is taking place outside the traditional banking sector, Axel Weber, president of the Bundesbank, said at the weekend.

"What we are seeing is basically what we see underlying all banking crises," said Mr Weber, one of the most influential members of the governing council of the European Central Bank.

The comments mark the first time that a top central banker has endorsed the notion that the non-bank financial system is seeing an old-style bank run.

Some Federal Reserve policymakers also privately see comparisons between the current distress in credit markets and the bank runs of the 19th century, in which savers lost confidence in banks and demanded their money back, creating a spiralling liquidity crisis for institutions that had invested this money in longer-term assets.

### [US housing: bad and getting worse](#)

The figures are set to get worse, said Nils Pratley in The Guardian; in July and August, mortgage lending “virtually came to a halt”. Credit conditions are tightening “for all but the most basic mortgages”, as Lex said in the FT, and high levels of unsold homes also point to lower prices.

There is now almost ten months’ inventory sitting on the market, a 16-year high. And the adjustable interest rates on mortgages worth \$750bn will rise over the next year, implying further rises in default rates, which will boost supply. Around two million defaults are expected before this cycle is complete, said Bill Gross of Pimco, with the likely result that prices will fall by around 10%. Given that 70% of Americans are homeowners (most don’t rely on stocks for their nest egg) they are facing “an asset deflation never seen since the Great Depression”.

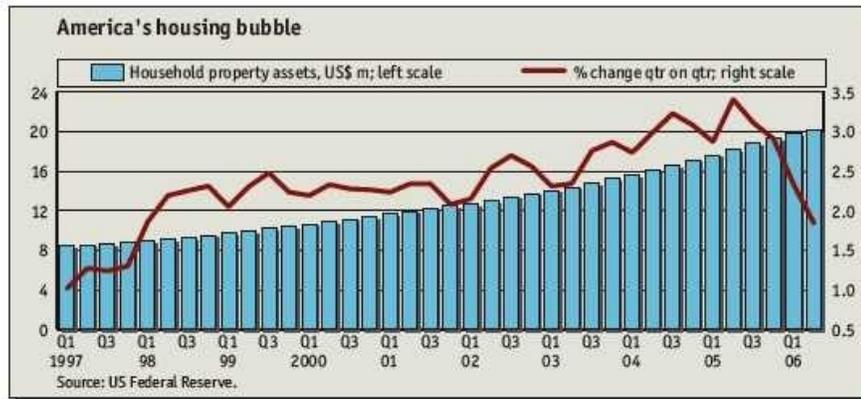
### [Unsafe at Any Rating, CDO Speeds to CCC From AAA: Mark Gilbert](#)

Watching the rating cuts trickle out of the derivatives forest is akin to searching for elephant dung on a path to try and work out how many pachyderms are in the jungle. There's clearly a herd in there. And it's probably much bigger than the ordure you have seen so far would suggest.

Last week, Standard & Poor's butchered the ratings on \$3.2 billion of debt from structured investment vehicles spawned by Solent Capital Partners LLP in London and Avendis Group in Geneva. About \$254 million was slashed from the top AAA grade to CCC+ and CCC -- slides of 16 and 17 levels, triggered by their investments in mortgage-backed bonds.

Think about that for a second. You left the office Tuesday owning a AAA rated security. By the time you got back to your desk on Wednesday morning, it was eight steps below investment grade in a category S&P defines as “currently vulnerable to nonpayment.” Try explaining that to your pension-fund trustees.

The rating companies are sifting through the billions of dollars of repackaged bonds and structured investment funds they graded in recent years. You can bet the world's biggest and smallest banks are also panning for risk in the structured investment vehicles and off-balance-sheet companies they casually sponsored in the gold rush.

[Heading for the rocks - A special report on the turmoil in the world's financial markets](#)

The tremors in financial markets have gone far beyond their beginnings in the US subprime mortgage sector, and indeed far beyond the borders of the US. The full impact on the markets, and the repercussions on the global economy, remain unclear, but we can sketch out three broad scenarios:

- Scenario 1. The Economist Intelligence Unit's central forecast, to which we attach a probability of 60%, sees the impact being contained by timely monetary policy action, with only a modest effect on the global economy.
- Scenario 2. Our main risk scenario, with a 30% probability, envisages the US falling into recession, with substantial fallout in the rest of the world.
- Scenario 3. Should the US enter recession, another, darker scenario arises: that corrective action fails, and severe economic repercussions cascade from the US into the world economy with devastating effect. We attach only a 10% probability to this outcome, but the potential impact is so severe that it warrants careful consideration....

....For the full text of the report click [here](#). (PDF warning)

### [Debt vultures await desperate sellers](#)

The vultures are circling Canada's asset-backed commercial paper market, seeking to snap up securities on the cheap from distressed sellers.

Toronto-based Cerberus Capital Management LP sent in a team of distressed debt specialists as the Canadian market for asset-backed commercial paper (ABCP) – very short-term securities backed by assets such as credit card loans and mortgages – imploded amid concern that some of the paper was backed by U.S. subprime mortgages that are going sour, sources said.

Cerberus isn't alone as distressed debt experts Fortress Investment Group LLC of New York and Brookfield Asset Management Inc. of Toronto are also looking to buy the paper at a substantial discount to its “par” value of 100 cents on the dollar, said people familiar with the market. At least one big U.S.-based brokerage firm is also looking to make a market in the securities. More than \$30-billion of this paper is outstanding.

So far, no trades are taking place because the market is locked up in the wake of the so-

called Montreal proposal brokered by the Caisse de dépôt et placement du Québec, which created a stand-still in the ABCP market while players look for a way to minimize losses. Big holders of the paper don't want any trades to go through at less than 100 cents on the dollar because then all the securities they hold will have to be revalued at a lower level in a so-called "mark to market," which could lead to substantial paper losses for holders.

### [Quebec backs debt bailout](#)

Quebec's Finance Minister says the government stands behind the province's major financial institutions as they try to buy some time to work through problems in a segment of the commercial paper market.

"The market, it's always based on confidence, and when everybody runs after their cash obviously you're going to have a problem," Finance Minister Monique Jérôme-Forget said by telephone yesterday.

Caisse de dépôt et placement du Québec chief executive officer Henri-Paul Rousseau, National Bank of Canada CEO Louis Vachon, and Desjardins Group CEO Alban D'Amours have been trying to come up with a solution to the issues in the non-bank-sponsored asset-backed commercial paper (ABCP) market, she pointed out.

### [A Bird's-Eye View of the Credit Conundrum: minyanville](#)

First, having been there at the beginning, the genesis of the asset-backed commercial conduits was regulatory capital arbitrage. Through the conduits' convoluted structures, banks were able to "lend" huge amounts off-balance sheet and collect fees on no-capital-required lines of credit. No one - and I mean no one - ever expected these conduits to move from off-balance sheet back on-balance sheet and I don't think the market yet understands the earnings, capital and liquidity impact of this migration. If you figure you need anywhere from 6-8% capital per dollar of loans, then a move of \$1.0 trln from off-balance sheet to on requires \$60-80 bln in additional equity capital. I don't know about you, but I don't see this kind of free capital sitting around.

### [The Real Causes of the Financial Storm](#)

"Tornadoes are caused by trailer parks." Norm Augustine, former chief executive of Lockheed Martin, coined that aphorism a few years ago after seeing one too many photos of mobile homes that had been devastated by twisters.

A similar misapplication of logic is now evident in discussions of the economic havoc surrounding subprime mortgages. These flimsy loan structures have been splintered by a financial tornado, but they were not the cause of the storm. For that you have to look deeper into the financial system, to the regular pattern of bubbles and binges that has been evident during the past several decades.

A useful compilation of these recurring crises appeared in the Financial Times last week in an article by former Treasury secretary Lawrence Summers. He cited the 1987 stock market crash driven by lockstep "pattern trading"; the rise and sudden collapse of savings and loan institutions in the late 1980s; the frantic borrowing by Mexico that spawned the 1994 peso crisis; the lending binge that led to the 1997 Asian financial crisis; the Russian debt default of August 1998 and the ensuing demise of Long-Term Capital Management; the technology bubble of the 1990s that burst in 2000; and the deflation worries that followed the collapse of Enron in 2002.

These disparate crises share a feature: In each case, capital flooded into assets that were thought to offer higher returns -- only to flood back out when the assets proved to be shaky. Investors overlooked the ordinary risk factors in their hunt for extraordinary profits. Rather than contenting themselves with the average "beta" returns of, say, the Standard and Poor's 500, they sought what a magazine for hedge fund managers last year described as "portable alpha." They were seeking a world like the one at Garrison Keillor's mythical Lake Wobegon, where all the children are above average.

### [Do You Recognize this Deflationary Spiral?](#)

It is beginning to dawn upon people how a deflationary spiral works. As explained in [Conquer the Crash](#), to satisfy creditors, debtors will sell all they can, even their best assets, to raise cash. That's one reason why gold and silver are not going up. When the sub-prime mortgage market crashed, guess what: other bonds, including supposedly safe municipal and corporate bonds, also fell. Most commentators believe that forced liquidation is the only reason that perfectly good investments fell in price. As one report dated August 24 said, "There's really no credit-related reason behind the decline."

But *Conquer the Crash* is on record predicting that a large portion of currently outstanding corporate and municipal debt will become worthless. Every trend has to begin somewhere, and its ultimate outcomes are never evident at the start of a move. By the end of the price decline in these bonds, when a bit of glue on the back of them will aid their use as wallpaper, observers will finally postulate why the bear market started in the first place. Even if most of the recent price declines are due to forced sales, those sales in turn are decreasing the total value of investments, which in turn will curtail individuals' and companies' economic activity, which will lead to an economic contraction, which will stress the issuers of such bonds to the point that they will be unable to make interest payments or return principal. In other words, whether investors understand it now or not, the forced sale of bonds is itself enough reason to sell them also on the basis of default risk.

Despite my description, this process is not linear. Every step of the way seems to have an immediate causal precursor, but like credit inflation, credit deflation is in fact an intricate, interwoven process, whose initial impetus is a change in social mood from optimism toward pessimism. If you are still on the fence about this idea, ask yourself: What changed in the so-called "fundamentals" between June and August? The answer is: absolutely nothing. Interest rates did not budge; there were no indications of recession; there were no changes in bank lending policies; there were no chilling government edicts. The only thing that changed was people's minds. One day sub-prime mortgages were a fine investment, and the next day they were toxic waste....

### [Risk of redemptions loom over 2,000 hedge funds](#)

According to the report, nearly a quarter of the 9,000 hedge funds with an estimated \$1.5 trillion in assets are at risk.

The report says: “Some foresee an increased risk of both margin calls on hedge funds’ highly leveraged positions, and consequent distressed sales of such hard-to-value assets, all forcing prices and values even lower.”

A margin call occurs when one or more securities purchased from a company decreases in value beyond a particular level. At that point, a broker demands an investor use margin to deposit more money or securities to restore the fund to a minimum maintenance level.

As investors' fears over being last to recover assets increase, the chance that they will be reduced in value, creates a “run on the bank” scenario amid competition, according to the report.

### [Can the Mortgage Crisis Swallow a Town?](#)

They have had no takers. Although they lowered the asking price to \$99,000 from \$109,000, no one has even come to look at it in more than six weeks. “My heart panics every time I drive down the street and I see another for-sale sign,” says Mrs. Eggleston, pointing past the placards in front of her porch to others that dot surrounding yards like lawn furniture. “Some people on the street couldn’t pay, so they just left. The competition to sell is just ridiculous.”

It is a scene being repeated in cities and towns across America as loans that were made to borrowers with little or no credit history, many of whom could not even afford a down payment, fail in ever-growing numbers.

### [Buy Houses in Detroit for \\$1500, Monthly Pmt. = \\$7](#)

You can go to Realtor.com and search for homes for sale in any city in the U.S., and you can specify a certain price range. If you search for homes for sale in Detroit, Michigan, you’ll find that there are 22,387 homes for sale right now, and if you search for Detroit homes for sales between \$0 and \$20,000, you’ll find that there are 3,431 homes for sale in that price range! That is, more than 15% of the homes for sale in Detroit, or almost 1 out every 7 homes for sale, is priced at \$20,000 or less.

### [Big bailout might be inevitable](#)

The U.S. loan guarantee for Chrysler Corp. in 1979, the Treasury-engineered refinancing of Latin American debt in 1989, the savings and loan bailout of the early

1990s -- all of these were solutions for problems that were deemed too big for any entity other than Uncle Sam to handle.

What, then, is the current housing bust, if not of the same or even greater import to the economy than the above? A few hours after President Bush spoke, the liberal-leaning Center for American Progress reached back to the 1930s to propose the re-creation of the Home Owners' Loan Corp., which during the Great Depression directly refinanced many delinquent mortgages.

A new Home Owners' Loan Corp. would perform the same function: It would take over, at taxpayers' expense -- and also at some loss to lenders -- a large chunk of the mortgages now in default or destined to land there.

The idea that a government entity should step in to save some significant number of people who can't make their mortgage payments has been gaining traction, and not just with the think-tank set.

Bill Gross, the bond fund guru at Pacific Investment Management Co. in Newport Beach, in his latest website commentary all but demanded that Bush rescue "millions of hard-working Americans whose recent hours have become ones of frantic desperation."

#### [The borrower bailout fallacy: why PIMCO's Bill Gross is flat-out-wrong](#)

By bailing out those who can least afford their mortgages, we essentially reduce home prices to their lowest common denominator - that is, to whatever price a troubled subprime borrower can bear. and that price will, but its very definition, be much lower than the price that the rest of the market - that is, the majority of borrowers who can afford their mortgages - would otherwise settle on.

#### [US aims to tackle mortgage crisis](#)

Henry Paulson, the treasury secretary, later told National Public Radio that the US administration would try to help people facing foreclosure find ways to refinance.

"We can't keep everyone in their home," Paulson said.

"But we sure as heck can make a big effort to help those who have got the capability to own a home refinance."

#### [Bush's FHA Plan May Only Reach 10 Percent of At-Risk Subprime Borrowers](#)

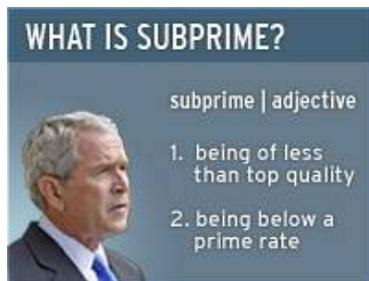
A press release showed up on HUD's Web site tonight with some interesting details about today's announcement by President Bush of an assistance plan for some troubled borrowers.

Among them is a disclosure that the FHA Secure lending program designed to help troubled subprime borrowers will utilize a risk-based pricing system that will allow the FHA to price insurance premiums by a borrower's risk profile. The system is targeted for implementation by January 1.

Also in the press release is an important number — 240,000. That is the estimate of the total number of at-risk borrowers that the FHA Secure program will keep out of foreclosure, with expected Congressional reforms to FHA program guidelines making help available to more.

Keep in mind that most estimates now assume that the total at-risk subprime population numbers around 2.4 million, so today's announcement would appear to mean that help is available for roughly 10 percent of the troubled subprime population. That assumes all FHA borrowers are subprime, of course, which need not be the case. And, of course, I'm not accounting for run-off (those who have already defaulted) or for a likely understatement of the at-risk population.

### [White House Has It all WRONG On Subprime](#)



I'm incensed. There's no other way to describe it. I called the White House, because after listening to the President's speech and reading the corresponding press release from the White House, I was confused, because of this:

"The "FHA-Secure" program will help people who have good credit but who have not made all of their payments on time because of rising mortgage payments."

Ok, well that's not subprimers, because subprimers by definition have poor credit or no credit at all. I asked the White House to clarify, and got the following email response.

"No -that's not how a subprime is defined. Subprime defined by the product not the borrower. A lot of people took subprime loans because they liked the low teaser rates and wanted to flip their properties after 2 years. Some liked the free plasma TV they got and figured that their home values would rise and they could sell. Some people made dumb decisions thinking that property values can only rise and bought more home than they could afford."

WRONG. I don't know any other more respectful way of saying it. WRONG WRONG WRONG. Anyone, subprime, prime or other could have gone after these low teaser loans. Many did!! I thought I was losing my mind, so I called John Mechem at the Mortgage Bankers Association: "We define subprime loans by borrower characteristics." Plain and simple. It has to do with how the loan is serviced, based on the credit of the borrower.

I read him the email, and he said the same thing. WRONG. So just to make sure I wasn't totally losing my mind (I mean how could the WHITE HOUSE be wrong????) I called Guy Cecala over at Inside Mortgage Finance. Same deal. He went on to say that FHA underwriting standards even if loosened somewhat, would still present a problem due to the credit of the subprime borrower. FHA deals with only the very top tier of subprime borrowers.

### [Ultra-low Fed rates stoked housing boom: Taylor](#)

In rare public criticism of Alan Greenspan, former U.S. Undersecretary for International Affairs John Taylor said on Saturday that ultra-low Federal Reserve interest rates had stoked the U.S. housing boom and subsequent bust.

Greenspan, who retired as chairman of the Federal Reserve in January 2006, slashed rates to an ultra-low 1.0 percent to protect the U.S. economy after the collapse of the technology bubble, the September 11, 2001, attacks and fears of deflation.

"A higher federal funds path would have avoided much of the housing boom," Taylor said, drawing on a model he designed to simulate housing activity if the Fed had raised rates instead of aggressively easing borrowing costs.

### [Rules 'hiding' trillions in debt](#)

The federal government recorded a \$1.3 trillion loss last year — far more than the official \$248 billion deficit — when corporate-style accounting standards are used, a USA TODAY analysis shows.

The loss reflects a continued deterioration in the finances of Social Security and government retirement programs for civil servants and military personnel. The loss — equal to \$11,434 per household — is more than Americans paid in income taxes in 2006.

"We're on an unsustainable path and doing a great disservice to future generations," says Chris Chocola, a former Republican member of Congress from Indiana and corporate chief executive who is pushing for more accurate federal accounting.

Modern accounting requires that corporations, state governments and local governments count expenses immediately when a transaction occurs, even if the payment will be made later.

The federal government does not follow the rule, so promises for Social Security and Medicare don't show up when the government reports its financial condition.

Bottom line: Taxpayers are now on the hook for a record \$59.1 trillion in liabilities, a 2.3% increase from 2006. That amount is equal to \$516,348 for every U.S. household. By comparison, U.S. households owe an average of \$112,043 for mortgages, car loans, credit cards and all other debt combined.

### [Banks financing TXU buyout offer \\$1bn to get off the hook](#)

The banks that underwrote the \$45 billion acquisition of TXU Corp, the world's biggest buyout, have offered to pay the \$1 billion (£495 million) break fee in a desperate attempt to convince the private equity backers to drop their bid.

It is understood that the banks asked Kohlberg Kravis Roberts and TPG to consider withdrawing their offer after the turmoil in the credit markets meant that the banks would have little or no chance of syndicating the record-breaking \$37 billion loan to investors. The banks include Goldman Sachs, Morgan Stanley, Citigroup, Lehman Brothers and JPMorgan.

However, KKR and TPG are understood to want to press on with their offer, despite tough market conditions, and are focusing on next Friday, when shareholders are scheduled to vote on the acquisition.

### [Failed Bear Stearns funds invited smaller investors](#)

Burton Lifland, a U.S. bankruptcy judge in Manhattan, said last week that he needed more time to decide whether the liquidation of two failed Bear Stearns mortgage securities funds could proceed in the Cayman Islands, where they are incorporated, or in this country, where most of their assets and many of their investors reside.

Although there is little left in the funds to divvy up among investors and creditors, how Judge Lifland rules will be closely watched. That's because most hedge funds are domiciled in faraway places where the courts may be, ahem, less friendly to investors than they are to the managers who park billions there.

If the Bear Stearns funds are liquidated in the Cayman Islands, they will be shielded from investors' suits, and all distributions to creditors will be handled by the courts there.

Bear Stearns wants the Cayman courts to oversee the liquidations.

### [Banks boost Fed borrowing for 2nd week](#)

Banks increased their borrowing from the Federal Reserve for a second straight week as the central bank worked to deal with a credit crunch that has roiled global financial markets.

The Federal Reserve reported that the daily borrowing averaged \$1.315 billion for the week ending Wednesday. That was the highest average borrowing since the attacks of Sept. 11, 2001. The average surpassed last week's average of \$1.2 billion, which also had been the highest since the 2001 terrorist attacks.

### [The War On Working Americans](#)

The toll adds up to a global race to the bottom in a country where services now account for 84% of the economy. The once bedrock manufacturing portion is just 10% and falling as more good jobs in it are lost in an unending drain. Since the start of 2000 alone, about one in six factory jobs, over three million in total, have been affected. The sector is less

than a third of its size 40 years ago and one-fourth the peak it hit during WW II.

It's been devastating for the nation's 130 million working people. No longer are unions strong and workers well-paid with assured good benefits like full health insurance coverage and pensions. Today, all types of financial services comprise the largest economic sector. Much of it is in trillions of dollars of high stakes speculation annually producing wads of cash for elite insiders (when things go as planned) and nothing for the welfare of most others and the good of the country.

Worst of all is the poor and declining quality of most service sector jobs measured by wages, benefits, job security and overall working conditions. It's because fewer good ones exist, unions are weak, and workers are at the mercy of employers indifferent to their plight. People are forced to work longer and harder for less just to stay even. Jobs in this sector are mostly concentrated in unskilled or low-skill areas of retail, health care and temporary services of all kinds. They pay lots less than full-time jobs, and have few or no benefits and little prospect for future improvement.

### [For Petrocan investors, too much cash can be a bad thing](#)

As problems go, Petro-Canada's is an enviable one: too much money.

That sounds like the kind of trouble an investor would like. It isn't necessarily so, however, because the company has few options for deploying its abundance of cash flow. When excess money marries limited opportunity, the offspring are usually ugly.

How will Petro-Canada's Fort Hills project turn out? Investors might want to take a closer look, according to Veritas Investment Research analyst Sam La Bell. The math is downright curious.

Fort Hills is a big oils sands project north of Fort McMurray and it is the linchpin of Petro-Canada's big, bold and long-term bet on oil sands. The partners are Teck Cominco and UTS.

Like all oil-mining endeavours, Fort Hills carries an astronomical price tag of almost \$30-billion if taken to completion in 2014. A little more than half of that investment is the responsibility of Petro-Canada, on behalf of its investors.

You get the sense that Petro-Canada's management, and maybe its board, want to damn the torpedoes and take on the project because the company went to some lengths to massage the numbers it used to justify the green light on it.

### [Oilsands project hit by delays, higher costs](#)

Construction of the Long Lake oilsands project is about 90% complete, but labour struggles, including a failure this summer to find enough pipe fitters, has led to a delay of between six months and a year and to a fourth cost bump in two years.

Nexen Inc. and OPTI Canada Inc. now say Long Lake's first phase will cost as much as \$6-billion to build, a 10%-to-15% hike from April when the 50-50 partners revealed an

increase to \$5.3-billion from \$4.6-billion.

The development was expected to cost \$3.4-billion and be producing synthetic crude early next year when it was sanctioned in 2004.

### [Nexen shares up despite Long Lake cost jump](#)

Nearly all oil sands projects have been hit with large cost overruns due to a tight labour supply in Alberta and industry-wide inflation in the costs of key materials like steel.

“I know people come out with much more conservative, realistic cost estimates based on the current environment, but I would expect to see, more than likely, continued cost increases in these projects, especially these ones that are five years out-plus,” Mr. Preston said.

### [Ontario's nuclear future](#)

It has taken 15 years for Ontario to produce a major policy paper on our power system. What has happened as a result?

This province has two of the top five dirtiest sources of pollution in Canada in the Lambton and Nanticoke coal-burning thermal-electric power plants. Our nuclear plants have fallen into disrepair quite often, causing power shortages during peak summer periods. Ontario's electricity system, once the pride of this province, is left buying power from its partners in the United States and Quebec. Hydroelectric plants have been unable to keep pace with the demand for power.

This is the province of Sir Adam Beck, of Niagara Falls: a place where industries flocked to take advantage of bountiful, clean, inexpensive power. Today, some industries are afraid to locate here because of the brownouts. This can't happen in one of the largest industrial jurisdictions in North America. Industry, jobs, wealth and the hospitals and schools they pay for, will go elsewhere.

### [Private firms key in Ontario energy plan](#)

Ontario's \$60-billion plan to rebuild its electricity system poses a vast new market for private sector companies that are looking to develop generation and transmission projects throughout North America.

But corporate energy executives worry the power plan will be driven by political promises that are driven by election campaign expediency, and by public unease with the profit-hungry companies supplying electricity, rather than by the long-term needs of the province's energy users.

It's a scenario that is playing out to a varying extent throughout North America as a

once publicly owned and publicly managed power sector looks increasingly to the private sector to finance the estimated \$1.5-trillion (U.S.) in new generation investment that will be required over the next 25 years.

### [Nuclear power debate about to mushroom into nastiness](#)

And the issue is this: Last year, BC Hydro estimated that the gap in the electricity it produces and what we consume will grow by between 25 per cent and 45 per cent over the next 20 years. In the U.S., the Department of Energy forecasts that demand for electricity will grow at an annual rate of 1.5 per cent. So the big question is, how are we going to realistically meet our increasing power needs without dramatically increasing our carbon emissions, let alone reducing them?

Even the United Nations seems to have thrown in the towel on the Kyoto targets of reducing emissions to 1990 levels in favour of holding steady at today's levels. The anti-nuclear advocates are pinning their hopes on alternative energy sources like wind, solar power and biofuels, plus a massive reduction in consumption through conservation.

Personally, I'm a big fan of geothermal, but I see no way the impact will be great enough to stop the growth in fossil fuels.

As James Lovelock states in summing up the sentiments of the 9,000-plus members of Environmentalists for Nuclear Energy, in light of the massive threat posed by global warming "we cannot continue drawing energy from fossil fuels and there is no chance that the renewable, wind, tide and water power can provide enough energy and in time."

### [Canada contemplates nuclear solution to quell climate change](#)

Canada is poised to join an elite club of "advanced nuclear nations" that - led by U.S. President George W. Bush - plans to promote nuclear energy as a key solution to global warming and to control the international movement of enriched uranium and radioactive waste, CanWest News Service has learned.

Canada's membership in the controversial Global Nuclear Energy Partnership would open a new battlefield in the already divisive national debate over what this country should do to help avert a planetary climate change crisis.

And joining the partnership - initiated by the Bush administration last year, and now counting Russia, China, Japan and France as members - could raise thorny questions about the costs and benefits to Canada, including potential impacts on the country's thriving uranium export industry, its CANDU reactor sales and its capacity to dispose of nuclear waste.

Responding to a CanWest News Service request about Canada's possible involvement in GNEP, a Foreign Affairs spokeswoman said: "Canada has been invited to join the Global Nuclear Energy Partnership and to participate in the next meeting scheduled to take place on September 16 in Vienna."

The statement added: "Canada is reviewing the proposed GNEP Statement of Principles

and a decision on Canadian participation will be made shortly."

One of the key components of the partnership is its push for the development of "fast-cycle reactors" - not yet proven to work commercially - that would produce less nuclear waste, but could compete internationally with the CANDU.

### [Fallout over nuke plant hits B.C. legislature](#)

Debate is starting to mushroom in the B.C. legislature over a nuclear power plant proposed for just outside its border in northern Alberta.

The NDP is leading the charge against Calgary-based Energy Alberta's plan to build a nuclear power plant 30 km west of Peace River and 70 km from the B.C. border, with energy critic John Horgan calling on the ruling Liberals to register opposition with Alberta Premier Ed Stelmach.

"British Columbians don't want a nuclear power plant next door and our government needs to make that crystal clear to the premier of Alberta," said Horgan yesterday.

### [Billions Up in Flames as Oil Firms Burn Gas](#)

Energy producers waste about 40 billion dollars every year by burning off gas released at oil fields, says a new study commissioned by the World Bank.

The practice, known as flaring, also hastens climate change by spewing some 400 million tons of carbon dioxide into the atmosphere, says the study, billed as the first global survey supported by photos taken from satellites in space.

Scientists say carbon dioxide and other so-called greenhouse gases are mainly responsible for changes in global climate that are resulting in increasingly frequent and intense natural disasters and the spread to temperate regions of diseases once found only in the tropics.

The report, commissioned by the World Bank and conducted by the U.S. National Oceanic and Atmospheric Administration, estimates that last year, 5.5 percent of global gas production, or 27 percent of U.S. consumption, was lost to flaring.

"If the gas had been sold in the United States instead of being flared, the total U.S. market value would have been about 40 billion dollars," according to the study.

### [Aaron Russo, R.I.P.](#)

As well expressed in his film, Russo found a frightening coincidence between the fledgling enforcement of a federal income tax and the 1913 creation, at Jekyll Island and at the behest of President Woodrow Wilson, of the Federal Reserve Bank which now

issues us all our money, in the form of debt. Creation of the Fed was one of Wilson's greatest regrets. A mere three years after the Fed's initiation, Wilson said: "The growth of the nation ... and all our activities are in the hands of a few men ... We have come to be one of the worst ruled; one of the most completely controlled and dominated governments in the civilized world ... no longer a government of free opinion, no longer a government by conviction and the free vote of the majority, but a government by the opinion and duress of a small group of dominant men."



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