The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: September 21st 2007

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Canada's economy is moving and shaking. The loonie reached parity with the US dollar for the first time since the Gerald Ford presidency. But don't be fooled: it's not the Canadian economy that does so great, it's the US that sinks ever further ever faster, and the rest of the world is sinking with it, including Canada.

The long-awaited report on the royalty rates for the Alberta tar sands was published, and it recommends raising the royalties significantly. Both the industry and the business-friendly media in Canada cry foul, and worse. Just a few months ago, Shell said their tar sands operation was immensely profitable, but now the tune has changed.

Some voices say raising the royalties reeks of too-big government, and comparisons with Hugo Chavez fly everywhere. But those same voices do want the government to pay for the Mackenzie Valley pipeline.

Go here for the full report.

Caracas on the Bow River

Tim Hearn, chief executive officer of top oil sands producer Imperial Oil, said any additional royalties would harm companies already facing sky-high labour and construction costs for their projects.

“I'm not in a position today to say whether we've reached a tipping point or not because I can't tell you,” Mr. Hearn said. “But there's enough things working against us that if all this stays in place as is, there will be an effect in the industry, clearly.”

A former oil executive who was on the review panel lashed back at energy executives, saying they should concentrate on better managing their own businesses and contain cost increases rather than “whining” about higher royalties.

“I don't have any sympathies,” said Sam Spanglet, who ran Shell Canada Ltd.'s oil sands operation before retiring several years ago. “[Alberta is] still going to be very competitive. I feel very confident.”

Some Calgarians were angry, with one broker e-mailing his clients with the subject line: “Caracas on the Bow River,” comparing Alberta with Venezuela and its socialist President Hugo Chavez, who expropriated oil assets this year.

“If [the report is] enacted, investment decisions will be impacted ... [the report] reads a bit like a Chavez-style manifesto,” Steve Larke, a Peters & Co. Ltd. broker, said in the email.

[Mish: Price Stability & Top Secret Missions]

In what I believe will be the financial post of the week anywhere, Prof. Depew Hit one out of the park in today's Five Things. Here is point #1 in case you missed it.

1. Federal Reserve's Joy Division

She's lost control... again... she's lost control.

Before today the overwhelming majority of those who either observe or participate in financial markets presumed the Federal Reserve retained some sort of control over price stability, financial markets and, to a degree, even certain asset prices.

Let that myth now be shattered.

- DOLLAR FALLS TO RECORD LOW AGAINST EURO - (BN)
- CANADIAN DOLLAR RISES TO $1 FOR FIRST TIME SINCE 1976 - (BN)
- GOLD RISES TO 1980 HIGH AS DOLLAR FALLS - (BN)
- CORN RISES 3% IN CHICAGO - (BN)
- WHEAT RISES 1.8% ON CBOT - (BN)
- SOYBEANS RISE 1.6% - (BN)
- TREASURY YIELD GAP WIDEST SINCE MAY 2005 - (BN)

These are important moves because each of these instruments - dollar, gold, Treasuries, commodities - relate directly to price stability. Directly.

[Alberta should hike oil sands royalties: report]

Albertans are not receiving “their fair share” from the province's energy industry and the government must significantly hike royalties in the oil sands, according to a much-anticipated report released Tuesday afternoon.

“Albertans do not receive their fair share from energy development and they have not, in fact, been receiving their fair share for some time,” said Bill Hunter, chair of the six-person expert panel that wrote the surprisingly blunt report that investigated whether the debt-free province was receiving adequate oil and natural gas revenues.

The panel found that the government's royalty tax take “ranks very low” against competing jurisdictions, especially in the oil sands arena. It recommended that royalties and taxes be raised by around $2-billion a year, a 20 per cent increase.

In recent weeks, various warnings have been issued from oil patch executives against the provincial government tinkering with the royalty restructure, which hasn't been updated since the mid-1990's.

Panel Calls for Oil Sands Royalties Hike

> A government appointed panel reviewing Alberta's energy royalties called Tuesday for the oil-rich Canadian province to increase its total take from the energy industry by 20 percent a year, or roughly 2 billion Canadian dollars ($1.97 billion).
>
> The provincial report targets Alberta's oil sands projects in particular and says the onus is on the province to rebalance the royalty and tax system because royalties haven't kept pace with world energy markets.
>
> Last year, Alberta collected 10-billion Canadian dollars ($9.9 billion) in energy royalties.

Alberta Panel Recommends Higher Oil, Gas Royalties

> ``Albertans do not receive their fair share of energy development and they have not been receiving their fair share for some time," Bill Hunter, panel chairman, said at a news conference.
>
> The panel also proposed a new tax on the production of bitumen, a heavy crude extracted from Alberta's tar-like deposits. The so-called severance tax would start at 1 percent on bitumen selling for C$40 a barrel and rise to a maximum of 9 percent, if prices are at C$120....
>
> ....Alberta lowered its oil-sands royalty a decade ago to encourage development of the tar sands, estimated to hold the most crude outside of the Middle East. The panel recommended maintaining a rule that allows companies developing oil-sands projects, including Royal Dutch Shell Plc and EnCana Corp., to pay a 1 percent revenue royalty until they recover their investments.
>
> The 25 percent rate of net revenue after costs are recovered ``is unnecessarily low in view of the significant changes that have occurred in world energy markets and fiscal royalty systems over the past decade," Hunter said. The proposed rate is ``fair to both Albertans and the producers," he said.

Alberta squeezes oil --but fairly

> Alberta's long-anticipated petroleum royalty review, ominously titled Our Fair Share, has raised a predictable firestorm. The review panel's report recommends a sharp increase in the province's oilsands take from 47% to 64%, with smaller increased shares from conventional oil and natural gas....
>
> ....What better way to slow down development than by sharply increasing royalties? The question is whether that will make Albertans better off in the long term.
>
> We might note here the panel's somewhat one-sided -- but politically typical -- view of "fairness." It apparently means squeezing as much as possible from oil companies short of driving them away. This squeezing, of course, becomes a lot easier if they have

> already invested billions of dollars under the regime that the province previously declared was "fair."

[Alberta may pay ultimate price]

> While the context is different and the panel's report comes a quarter of a century later, like the NEP it promotes draconian measures that would vastly increase the government's take and grip on the booming sector, supposedly to ensure Albertans get a fairer share from their energy resources.
>
> The reaction, if the panel's recommendations are adopted, would likely be the same: a flight of capital and the end of an era. Oilsands developers, already struggling with soaring costs, labour shortages and tougher greenhouse-gas legislation, are unlikely to just swallow a 17% increase -- to 64% from 49% -- in the amount they already hand over to governments. The report's key recommendation is that the 1% provincial royalty collected from oilsands projects before payout would remain unchanged, but the post-payout royalty would jump to 33%, from the current 25%.
>
> It's no surprise that the industry had recommended a continuation of the status quo, not only because of its challenges, but because the government had already gotten it right.
>
> The new terms can only result in projects being ratcheted down, postponed or even abandoned. Shareholders would rightly feel betrayed by a wholesale change in rules only a couple of years after the Alberta government was trumpeting around the world the benefits of investing in its politically secure, fiscally stable, plentiful oilsands deposits.

[Alberta should ditch royalty rate report]

> The review, the biggest policy initiative of the Stelmach government since he replaced Ralph Klein last December, was launched this year to reassure taxpayers that they were getting a fair share from the extraction of its energy riches.
>
> But the real motivation was politics: The idea was hatched in the heat of the Tory leadership contest a year ago to pander primarily to rural Albertans vexed by too much oil and gas activity during a peak in the commodity-price cycle.

[Parts of royalty report called 'Draconian']

> Alberta could raise oil and natural gas royalties but this week's recommendations for major increases are “Draconian,” according to Murray Edwards, vice-chairman of Canadian Natural Resources Ltd., the country's No. 2 producer in the oil patch.
>
> “To get into the particular details, it's probably premature, but I think there was a recognition [among industry leaders] that there maybe could be some increases on royalties as you move to higher [commodity] price environments. But to go the

magnitude of the increases [in this week's Alberta royalty report] just goes far beyond the economic capability of the basin," Mr. Edwards told reporters in Banff on Thursday at an annual business conference.

On Tuesday, a landmark report produced by an independent expert panel concluded that Alberta has been missing out on billions of dollars of energy money, issuing broad recommendations led by a call to hike Alberta's take in the oil sands to 64 per cent from 47 per cent, including royalties, taxes and other levies.

[Stelmach 'won't be intimidated' in royalty talks]()

Just as the oil patch ramped up rhetoric about falling stock prices and fleeing investment, Alberta Premier Ed Stelmach said yesterday that he "won't be intimidated" by those who are hostile to a new report that says the province should be collecting billions of dollars more in energy royalties.

He said his government will make a decision "within weeks" about whether it would implement the recommendations to increase the oil sands royalty and add a new tax in order to give Albertans their "fair share" of the province's resource wealth.

[Klein slams Alberta royalty recommendation]()

Negative reaction to recommendations that Alberta boost its royalty take for oilsands, conventional oil and natural gas development came fast and furious on Wednesday, and included comments by former premier Ralph Klein, who said he "fears" for the oilsands sector.

Klein, who retired last December and whose government in the mid-1990s set up Alberta's current oilsands royalty regime, said he had conversations with oil industry leaders immediately after Tuesday's report, which said Albertans do not receive a fair share of oil and gas revenues, was made public.

"One of three people in this province depend on the oil industry to make a living, so maintaining a regulatory system that is predictable and stable is vital to maintaining the thriving energy sector that creates these benefits - in my mind," Klein said in an interview.

"Alberta is known all over the world for its stable and fair royalty system and last night, I happened to have the opportunity to speak with a number of oil industry leaders, and they weren't pleased with the recommendations," Klein said.

[Energy stocks plunge after call to raise royalties]()

Investors hammered oil sands stocks Wednesday, fearing the sector could be hurt if Alberta raises royalties following a landmark report that at once infuriated and befuddled the oil patch.

The report issued Wednesday by an expert review panel concluded that the provincial government should raise royalties and taxes on oil sands production significantly, adding that Alberta would remain competitive even with higher rates. The government has said it will decide what to do about the panel's recommendations by mid-October, leaving most oil producers unable to respond definitively.

The report, which also advocated higher rates on some conventional oil and natural gas wells, proposed that no projects be grandfathered, meaning every energy company operating in Alberta could be affected.

Oilsands shares tumble after royalty report

The casualty list read like a roll call of the biggest names operating in the oilpatch, with Canadian Oil Sands Trust, Encana Corp., Nexen Inc., Suncor Energy Inc. and Canadian Natural Resources Ltd. all posting sizeable losses on the day.

The energy subgroup of the benchmark Toronto Stock Exchange index ended the day down 9.72 points, or 2.74%, while the overall S&P/TSX closed down 65.62 points or 0.47%.

The slide in oilsands stocks came despite another record-setting day for oil. Crude oil rose to US$82.51 a barrel in New York after a U.S. Energy Department report showed a larger-than-expected U.S. inventory decline.

Canada Stocks Extend Fall on Proposed Oil Royalty; Suncor Drops

Canadian stocks fell for a second day on concern that a proposal to raise royalties on oil and gas producers will hurt energy companies' growth and profits.

Suncor Energy Inc., the world's second-largest producer of oil from the tar-sands, paced declines for a second day. Barrick Gold Corp. led materials shares higher, as bullion hit a 27-year high and Canada's dollar traded equal with its U.S. counterpart for the first time since 1976.

The royalty proposal is ``continuing to hit stocks until it's resolved,'' said Michael Smedley, who helps manage the equivalent of $1.2 billion at Morgan Meighen & Associates in Toronto. ``The oil-sands producers are already under pressure because of an a escalation of costs.''

Energy companies should quit whining: royalty review member

A member of a government panel that has recommended hiking energy royalties says Alberta's oil and gas companies should stop complaining about rising costs.

> "As a former executive, I'm a little bit tired from hearing my peers, my colleagues whining about costs," said Sam Spanglet, who used to work for Shell.
>
> "Cost is the industry's control. It doesn't have anything to do with Albertans. We executives, we are in control of costs, and we have a done a pretty lousy job in this aspect to be honest with you."

[TSX Group CEO says TSX crucial to Canada's energy growth]

> Canada's main stock exchange has been a linchpin in the country's emergence as an “energy superpower,” TSX Group [X-T] CEO Richard Nesbitt told a European audience Tuesday.
>
> “Our success in oil and gas links is because we are operating from one of the most sophisticated resource investor communities in the world,” Mr. Nesbitt said in remarks to the Canadian European Roundtable in London.
>
> “Over the last five years, only two exchanges have consistently raised more capital than TSX Group equity exchanges,” Mr. Nesbitt said.
>
> “New York was first, London was second and TSX Group exchanges were third.”

[Canadian Natural Resources may be protected from royalty hikes]

> Mr. Yang, however, argued in his research note that the proposal at this stage is just that, a proposal, and may never be adopted.
>
> He added that even if the royalty rate increase does go through, Canadian Natural is likely protected due to a contract it has with the Alberta government that stipulates the lower royalty rate.

[Energy CEOs call for national policy]

> In Alberta's oil patch, the words "national energy program" are usually uttered as a curse, a reference to the ill-fated 1980s program of oil nationalization and price controls.
>
> But in a possible sign of changing times, several senior Canadian energy executives have used a gathering in London this week to make an unprecedented call for an increased federal role in their industry - some even daring to call for Ottawa to develop a comprehensive national energy policy.
>
> "I firmly believe that developing and implementing a national energy strategy would help resolve many of the issues" facing the oil and gas industries, said Patrick Daniel, chief executive officer of the petroleum pipeline and distribution firm Enbridge Inc. "A national strategy would help in mapping our energy development agenda and serve to

prioritize our initiatives, including R&D and training."

[Hyperion: Canadian oil a key]

The Elk Point area is being considered for an oil refinery because of its proximity to crude oil from Canada, according to the chief executive officer of Hyperion Resources.

Albert Huddleston, in an interview with the Argus Leader of Sioux Falls, said neither air quality, environmental regulations nor Gov. Mike Rounds influenced his choice of southeast South Dakota for a possible oil refinery that could cost $8 billion to $10 billion.

"Canada is the number one contributor of crude oil (to the U.S.) today, and it's going to get larger and larger. And the flyway or through-fare for that crude from Canada is going to come through South Dakota," he said.

[Why Ottawa must back pipeline]

In a world of predators and state-owned energy giants, Canada cannot just leave everything up to market forces.

Take Hibernia or Syncrude, for instance. Both projects would never have happened if they hadn't been backstopped by Ottawa and provincial governments.

Now these two operations represent about 20% of the country's oil production. More importantly, they opened up energy opportunities that led to more discoveries, plus world-class technologies.

Canadians were the first to produce oil from a fixed platform 200 miles offshore in water one mile deep where icebergs float by. Canadians were the first to commercially produce oil from gooey tarsands.

Now, Ottawa must fast-track the stalled Mackenzie Valley Pipeline project for similar reasons.

[Researchers create N.S. wind map]

The Nova Scotia government has mapped the province's wind potential and is hoping to lure investors to what it says are some of the most promising wind sources in the world.

Energy Minister Bill Dooks presented a wind atlas Tuesday that highlights hot red areas from the northern tip of Cape Breton to the southern coast of Yarmouth where winds are at their highest.

“By 2013, nearly 20 per cent of all Nova Scotia's electricity will come from green sources like wind,” he told an environmental conference in Halifax.

Alberta nuke plant may cushion tax hit: developer

> An executive pitching nuclear power for Alberta raised the specter of a grab on the Canadian province's oil wealth on Tuesday, saying such a plant could prevent cash flowing to Ottawa in the form of carbon taxes.
>
> Wayne Henuset, president of Energy Alberta Corp, said he believed taxes on carbon emissions could be imposed in Canada to limit greenhouse gases like carbon dioxide, blamed for global warming.
>
> Alberta has become the top emitter among Canadian provinces due to its oil and gas production and rush to develop oil sands, Henuset told the Calgary Chamber of Commerce.

Only threat to Alberta is onset of world peace

> An outbreak of world peace and respect for human rights would be disastrous for Alberta. Global happiness would bankrupt this province.
>
> It's not obvious how Alberta prospers by the world's misery. Let's connect the dots.
>
> Alberta has earned the dubious distinction of being one of the most expensive places to develop and produce oil and gas. It's a combination of geology and public policy.
>
> Because of our long history in the conventional-oil business, the cheap stuff is increasingly hard to find. All the big fields have been discovered and largely drained. What conventional-oil explorers do find today is heavy, wet, sour or small.
>
> Sadly, our oilpatch is also over the hill for natural gas. Increasingly, we're drilling "resource plays" (a complimentary term for very tight reservoirs that cost a bundle to stimulate) or "non-conventional" supplies like coal-bed methane. The current rig count illustrates that $5.25 per thousand cubic feet for methane is way too low for this basin.
>
> The future of hydrocarbon production is oil so heavy that is must be mined and separated or heated so it will move. High oil prices and massive reserves have made Alberta's non-conventional oil attractive, but right now this is surely the most expensive petroleum to develop in the world.

Southern Saskatchewan hit by massive blackout

> "Electrical system instability" created by the storm in the midwestern U.S. caused the generating units at two power stations in Saskatchewan and several other transmission facilities in locations across the province to go offline, said Christie. The SaskPower system is connected to the same power grid as the one affected by the storm in the U.S.
>
> Christie couldn't estimate how many customers were affected by the power outage but

> confirmed it hit large portions of Regina, Moose Jaw, North Battleford, Yorkton, Prince Albert and many rural areas. Most residents in Saskatoon were spared, Christie said.
>
> "We continue to work to try to understand what took place here in Saskatchewan and whether or not everything functioned perfectly," said Christie.

Canadian dollar at parity with greenback

> For the first time since Gerald Ford was president, the loonie can buy as much as the greenback. The U.S. dollar's recent decline against the Canadian dollar, the euro, and even the Indian rupee, means Americans will pay more for imports and trips to Paris, Rome, Bangalore and Toronto. It also may drive overseas demand for U.S. goods and help raise profits at U.S. multinational corporations.

Flaherty calls on Dodge

> Finance Minister Jim Flaherty is concerned enough about the soaring loonie that he called the governor of the Bank of Canada on Thursday as the dollar reached parity with the U.S. greenback for the first time in 31 years.
>
> Mr. Flaherty wouldn't reveal the substance of his conversation with David Dodge and reiterated previous statements that the central bank sets interest rate policy independently of political interference....
>
> ....“There's pros and cons,” he said. “It helps Canadian manufacturers acquire new technology, but then it also puts some pressure on manufacturers, particularly the suddenness of the depreciation of the U.S. dollar.”
>
> The minister, who represents the Ontario riding of Oshawa where General Motors Canada recently announced a layoff of 1,100 workers, said he's concerned that the quick appreciation of the loonie will hurt manufacturers trying to export into the U.S. That includes the forestry industry, which must also cope with a collapsing U.S. housing market.

Debate rages over impact of soaring Canada dollar

> The Canadian dollar's flight toward parity with the U.S. dollar has reignited debate over the impact of the strong currency on inflation and on Bank of Canada interest rates.

Central Banks Lack Tools to Fix `Panic,' Moody's Says

> Central banks may not have the tools to restore stability to credit markets amid the

``Panic of '07,'' and instead should demand greater transparency from financial companies, Moody's Investors Service said today.

Derivatives and the growth of hedge funds using unprecedented amounts of debt have magnified the impact of a rise in borrowing costs, New York-based Moody's said in a report.

``The new financial paradigm has brought with it some problems, which the world's financial policy technicians have not yet solved,'' Moody's said in a report by Vice Chairman Christopher Mahoney and Senior Vice President Pierre Cailleteau. ``Each credit crisis teaches new lessons, often resulting in corrective reforms. The current `Panic of '07' will as well.''

Asia prime candidate for subprime woes

Financial institutions in Asia could face the same fate as Britain's Northern Rock PLC, which suffered a run on its deposits and had to be bailed out by the U.K. government, as the aftershocks from the United States' subprime woes ripple around the world.

Nariman Behravesh, chief economist at Global Insight, said yesterday the troubles stemming from the subprime-mortgage mess could take up to six months to surface, and Asia is a vulnerable area....

....Mr. Behravesh estimates that the total household mortgage debt in the United States is about US$10-trillion, about US$2-trillion of which is subprime and slightly better.

About $1.2-trillion, or 60%, of the subprime debt has likely been securitized, with about half of it ending up in Europe. It is not known where the rest ended up, but Mr. Behravesh said Asia is a likely candidate.

"These losses are dispersed around the world. We don't know where," he said yesterday at a Global Insight conference in Toronto.

Hopes of a suitor ebb for Northern Rock

Shares in beleaguered U.K. bank Northern Rock took a fresh hit on Thursday, tumbling over 30 per cent to record lows on renewed concerns that a suitor might not materialize to pull it back from the brink.

Uncertainty over the future of Northern Rock, which had been thought a likely takeover target after it was engulfed by a funding and customer confidence crisis last week, spread to other lenders in morning trade, as talk of funding worries spooked investors across the banking sector.

Shares in mortgage banks including Alliance & Leicester and HBOS fell sharply.

Speaking after the U.K. Treasury confirmed that existing and reopened accounts in the bank would be guaranteed – but not new accounts – analysts on Thursday revived talk that Northern Rock, Britain's fifth-largest mortgage lender, could struggle to find a buyer.

"The deafening silence is dispiriting for shareholders," David Buik at Cantor Index said. "It is believed that legal ramifications are preventing interested parties stepping up to the plate."

'Fire sale' talk shakes Northern Rock

Mr. Hunter added: "The best outcome for Northern Rock -- the brand having been damaged in the way it has -- would be to be acquired."

"Clearly any acquirer is going to get Northern Rock for a fraction of the cost of just a few months ago," he said. Northern Rock peaked this year at about 1,250 pence.

The British mortgage bank had been hit with a wave of withdrawals by nervous depositors earlier this week on news that it had to be bailed out by the Bank of England, victim of a global credit squeeze.

Northern Rock effectively 'nationalised' by state guarantee

Northern Rock has effectively been nationalised by the Treasury's unprecedented guarantee this week to protect all deposits at the beleaguered mortgage lender.

Details of the arrangement, published yesterday, revealed that the bank's commercial paper has been entirely underwritten by the taxpayer.

Sources said the move had effectively turned billions of pounds of Northern Rock's liabilities into gilts.

Danny Gabay, an ex-official of the Bank of England now at Fathom Financial Consulting, said: "This is a nationalisation of Northern Rock. Don't expect the Treasury to place civil servants at the helm but, to all intents and purposes, the state now guarantees it."

Bank of England to inject £10-billion into money markets

The Bank of England made a surprise U-turn on Wednesday, offering to inject £10-billion, about $20-billion (U.S.), next week into money markets in a bid to bring three-month interest rates down.

The BoE will then hold three further auctions at weekly intervals with the amounts to be decided later. Banks will be allowed to offer a wider range of collateral than is normally allowed, including their mortgage debt.

Government forces King U-turn

> The Government has forced the Bank of England to relax lending standards in a dramatic U-turn, effectively stripping the institution of its independence for the first time since the new monetary regime was created in 1997.
>
> In a bizarre move, the Bank shifted tack abruptly yesterday by agreeing to flood the capital markets with £10bn of three-month money and widen the asset classes it will accept as collateral against the loans.
>
> The change in policy came despite vehement objections from top Bank staff, including Governor Mervyn King, who said a week ago that lack of liquidity was not the root of the problem and that opening the short-term credit spigot "encourages excessive risk-taking and sows the seeds of a future financial crisis".
>
> In a humiliating climbdown, the Bank said it is now acting "to alleviate the strains in the longer-maturity money markets". Eligible collateral will now include mortgage debt.

BoE in dramatic U-turn on 3-month money

> Financiers have been calling for the Bank to relieve pressure in the three month inter-bank lending market for weeks but, earlier this month, Governor Mervyn King expressly stated that the three month market was not the Bank's concern.
>
> Its position changed this morning, when it said: "This measure is being taken to alleviate the strains in longer-maturity money markets." The Bank will accept "mortgage collateral" in the auction and charge interest at 6.75pc.
>
> Bankers claim that, had the three month money been available, Northern Rock may not have resorted to the emergency facility that panicked customers, irreparably tarnished its reputation and has caused the share price to halve.

U.K. regulator urged action ahead of bank crisis

> The U.K.'s financial services regulator
> repeatedly urged the Bank of England to intervene in money markets in order to stave of a crisis in confidence surrounding U.K. mortgage lenders, according to a published report Wednesday.
>
> The Financial Services Authority called on the central bank to act in the weeks before mortgage lender Northern Rock (UK:NRK: news, chart, profile) found itself in need of an emergency loan, according to a report in the Financial Times.

Credit crisis has created “significant market stress”: Bernanke

> Federal Reserve Chairman Ben Bernanke told Congress Thursday the credit crisis has created “significant market stress” and offered fresh assurances that regulators would take steps to curb fallout related to the mortgage mess.
>
> Mr. Bernanke made the statement in testimony to the House Financial Services Committee. It came just two days after the Federal Reserve sliced a key interest rate by a bold half-percentage point to prevent the weight of housing and credit problems from sinking the economy. It was the first time in more than four years the Fed cut this rate.
>
> “Global financial losses have far exceeded even the most pessimistic estimates of the credit losses on these loans,” the Fed chairman said. The situation, he acknowledged, “has created significant market stress.”

Bernanke's shock and awe

> Ben Bernanke and nine Fed colleagues voted unanimously for the rate cut of half a percentage point amid persistent worries that a deepening credit crunch could derail the global economy.
>
> The decision marks a dramatic about-face for Mr. Bernanke, who just a month ago reassured people that the real economy was largely immune to the mortgage market meltdown.
>
> The Fed now acknowledges that the credit crunch, which has triggered runs on some lenders and pushed others near bankruptcy, threatens the entire economy.

Bernanke: Loan Losses Worse Than Forecast

> Exotic new asset-backed securities were so obtuse and opaque that investors couldn't accurately gauge their risks, Federal Reserve chairman Ben Bernanke told Congress. As a result, "global financial losses have far exceeded even the most pessimistic estimates of the credit losses on these loans."
>
> "The shift in risk attitudes combined with greater credit risk and uncertainty about how to value those risks has created significant market stress," the Fed chief said in a written statement prepared for the House Financial Services Committee.
>
> "On the positive side of the ledger," he added, "past efforts to strengthen capital positions and financial-market infrastructure place the global financial system in a relatively strong position to work through this process."
>
> To that end, he cautioned Congress not to overreact in efforts to help homeowners. "The risk of moral hazard must be considered in designing government-backed programs," he said. "Such programs should not bail out failed investors, as doing so would only encourage excessive risk-taking."

Fed, Treasury open to easing loan constraints

> Federal Reserve Chairman Ben Bernanke and Treasury Secretary Henry Paulson told Congress on Thursday they are open to letting Fannie Mae and Freddie Mac buy more troubled home loans if the companies control risk and agree to tougher oversight.
>
> Bernanke and Paulson have both resisted letting the two mortgage finance companies expand their presence in the mortgage market, but on Thursday they said they could envision terms under which the two companies could help stabilize the market.
>
> Paulson said he could support letting the government-sponsored enterprises, or GSEs, temporarily invest in so-called jumbo loans that are above their current $417,000 limit as part of a broader regulatory overhaul.

US home foreclosures soar 36 percent in August: survey

> Home foreclosures in the United States surged 36 percent in August from the prior month and more than doubled from a year ago, a leading foreclosure data firm said Tuesday.
>
> RealtyTrac said foreclosure filings -- including default notices, auction sale notices and bank repossessions -- jumped to 243,947 in August, compared with 179,599 in July and 113,300 in August 2006.

Fed cut said to have little impact on foreclosures

> An aggressive interest rate cut by the U.S. central bank on Tuesday will provide some relief to struggling homeowners but will not dramatically stem the tide of foreclosures, experts say.
>
> Foreclosures have spiked dramatically this year and some analysts expect a bigger jump in 2008 as teaser rates end on about $500 billion in loans to borrowers with spotty credit.

Capital flows promise more trouble for dollar

> With all the excitement surrounding the interest rate reduction by the Fed, it is easy to overlook something else that occurred today that also has serious implications for the US dollar. The Treasury International Capital Flows data for July 2007 was released early this morning. The data was not good.
>
> When using only the data for long-term securities, foreign capital flows into the United States hit their lowest level since December last year. The actual amount was $19.2 billion. The trade deficit for July was -$59.2 billion. In other words, when using only the

> data including long-term securities, flows were insufficient to fund the trade gap.

[American Home Mortgage pushing to seize $27 million in retirement savings]

> Bankrupt Melville-based American Home Mortgage is attempting to seize as much as $27 million that employees had set aside from their paychecks as retirement savings, and if it is successful, the workers may never see the money again.
>
> In a flurry of objections filed in federal bankruptcy court here, employees around the country who contributed to AHM's deferred-compensation plan said its move to release the cash from a trust would put it in the hands of large creditors like banks and jeopardize their financial futures.

[Plummeting dollar, credit crunch...]

> The days of the dollar as the world's 'reserve currency' may be drawing to a close. In August, foreign central banks and governments dumped a whopping 3.8 percent of their holdings of US debt. Rising unemployment and the ongoing housing slump have triggered fears of a recession sending wary foreign investors running for the exits. China, Japan and Taiwan have been leading the sell-off, which has caused the steepest decline since 1992.
>
> To some extent, the losses have been concealed by the up-tick in treasuries sales to US investors who've been fleeing the money markets in droves. Investors have been trying to avoid the fallout from money funds that have been contaminated by mortgage-backed assets.

[Caisse top ABCP holder]

> The Caisse de depot et placement du Quebec has the greatest exposure to the asset-backed securities market at more than $20-billion, according to Ontario government sources, which is more than half of the estimated $35-billion of non-bank-backed, asset-backed commercial paper (ABCP) held in Canada and ravaged by a global liquidity crisis.
>
> The Caisse spearheaded "the Montreal proposal" on Aug. 16 to help institutions buy time to restructure their finances to deal with the credit crunch emanating from the U.S. subprimemortgage crisis.
>
> A spokeswoman for the Caisse declined to talk about the fund's ABCP holdings. "We have seen quite a few numbers published and we don't comment on any of them," said Lucie Freniere.

['Too late to avoid global warming,' say scientists]

> A rise of two degrees centigrade in global temperatures – the point considered to be the threshold for catastrophic climate change which will expose millions to drought, hunger and flooding – is now "very unlikely" to be avoided, the world's leading climate scientists said yesterday.
>
> The latest study from the United Nation's Intergovernmental Panel on Climate Change (IPCC) put the inevitability of drastic global warming in the starkest terms yet, stating that major impacts on parts of the world – in particular Africa, Asian river deltas, low-lying islands and the Arctic – are unavoidable and the focus must be on adapting life to survive the most devastating changes.

Greenland's Jakobshavn glacier sounds climate change alarm

> The chaotic cavalcade of blueish ice tumbling into the sea from the world's fastest-moving glacier is sounding a daily climate change alarm, say scientists ahead of International Polar Day on Friday.
>
> The Jakobshavn Glacier, on Greenland's west coast, is melting twice as fast as 10 years ago and advancing toward the sea at 12 kilometres (seven miles) per year, compared with six kilometres (three and a half miles) before.

Arctic ice ebbs to record level: scientists

> Sea ice freezes and melts seasonally, but never has it ebbed to this small a patch, the data center said in a statement. Compared to 2005, the previous record-low year for Arctic sea ice, this year saw a decrease of more than 386,100 square miles.
>
> That is about the size of Texas and California combined, or nearly five times the size of the United Kingdom, the center said. It is more than double the drop between 2005 and 2002, the previous record-holding year.
>
> "That's a dramatic change in one year," Meier said of this year's sea ice decrease. "Certainly we've been on a downward trend for the last 30 years or so, but this is really accelerating the trend."
>
> The minimum amount of ice occurred on Sunday and freezing has already begun in some places, according to satellite imagery used by the center.

Australia: Wheat forecast slashed on drought

> The federal government's official agricultural forecaster has estimated an 11 million tonne drop in Australia's winter grain crop to 25.6 million tonnes.

The Australian Bureau of Agriculture and Research Economics (ABARE) today released its latest crop forecast as drought grips much of southern Australia.

[Global warming concerns after Africa deluge]

More than 1m people have been hit by some of the worst floods in Africa in a generation, fuelling concerns over the continent's exposure to extreme weather events linked to climate change.

Experts from the Intergovernmental Panel on Climate Change, a UN-convened body of scientists, warned in a report on Tuesday that the consequences of rising temperatures are already being felt around the world, naming Africa as one of the areas most affected by global warming.

West Africa has suffered some of its worst floods in a decade, with more than 300,000 people forced to flee by rising waters in northern Ghana alone, according to government disaster officials.

Hundreds of thousands more people across Uganda, Ethiopia, Sudan and Kenya in the east of the continent have also been hit.

"The scale of the flood in northern Ghana is unprecedented in contemporary times," said George Isaac Amoo, national co-ordinator of Ghana's National Disaster Management Organisation.

"Villages have been wiped off the map," he told the Financial Times, shortly after visiting the disaster zone.

Dozens of people have died as rising water swept away bridges, homes and roads in more than 20 African countries in recent weeks, underlining the continent's vulnerability to extreme rainfall.

[Aussie agriculture to be hit hard by climate change]

Climate change, if left unchecked, stands to reduce Australia's agricultural productivity by up to 27 per cent over the next 75 years, and devastate agricultural output in some of the poorest regions of the world, a study estimates.

The study, by US economist William Cline of the Peterson Institute of Institutional Economics in Washington, estimates that global warming will cut agricultural productivity worldwide by between 3 per cent and 19 per cent by 2080.
Tropical and subtropical agriculture in particular will be devastated, Dr Cline estimates, with already poor areas such as Sudan and equatorial Africa seeing agricultural productivity decline by as much as 50 to 60 per cent.
Conversely, some colder areas stand to gain, particularly if the carbon fertilisation theory - the prediction that increased carbon dioxide in the atmosphere will make plants grow faster - proves to be valid, he says.

Alberta plans firewall to halt pine beetles

> While Alberta prepares to torch a large swath of forest including part of Banff National Park in the coming week to fend off an invasion by the mountain pine beetle, British Columbia is left to hope a new generation of trees will take off under the canopy of its vast dead woods.
>
> Responding to a new report this week that shows the tiny pine beetle has wiped out 40 per cent of B.C.'s current stock of pine trees – a total of 12 per cent of all of B.C.'s saleable timber – B.C.'s Forest Minister said Tuesday that the devastation does have a silver lining: There's more water for surviving trees to grow quickly.
>
> The lessons learned by B.C.'s massive losses are behind Alberta's aggressive campaign to destroy even healthy stands of woods in an effort to control the invasion from across the Rockies.

Making a mint from Artic mammoths

> One day, climate change could cost the earth. For now, it is a nice little earner for Russian hunter Alexander Vatagin.
>
> In Siberia's northernmost reaches, high up in the Arctic Circle, the changing temperature is thawing out the permafrost to reveal the bones of prehistoric animals such as mammoths, woolly rhinos and lions that have been buried for thousands of years.
>
> Private collectors and scientific institutes will pay huge sums for the right specimen, and bone-prospectors such asVatagin have turned this region, eight time zones from Moscow, into a palaeontological goldmine.

Has China's one-child policy worked?

> China's family planning policy has prevented 400 million births, officials say.
>
> Since the regulations were introduced in 1979, China has kept its population in check using persuasion, coercion and encouragement.
>
> And it looks likely that, nearly 30 years after the policy was first introduced, it will not be relaxed to allow couples to have more children.
>
> Many Chinese and foreign academics believe this is a mistake and will result in a number of serious demographic problems in the future.
>
> At a press conference earlier this year, Chinese officials were keen to declare the controversial policy a success.

Blackwater's wide latitude in Iraq

> Blackwater USA, the private security company involved in a Baghdad shootout last weekend, operated under State Department authority that exempted the company from U.S. military regulations governing other security firms, according to U.S. and Iraqi officials and industry representatives.
>
> In recent months, the State Department's oversight of Blackwater became a central issue as Iraqi authorities repeatedly clashed with the company over its aggressive street tactics. Many U.S. and Iraqi officials and industry representatives said they came to see Blackwater as untouchable, protected by State Department officials who defended the company at every turn....
>
> ....The State Department allowed Blackwater's heavily armed teams to operate without an Interior Ministry license, even after the requirement became standard language in Defense Department security contracts. The company was not subject to the military's restrictions on the use of offensive weapons, its procedures for reporting shooting incidents or a central tracking system that allows commanders to monitor the movements of security companies on the battlefield.
>
> "The Iraqis despised them, because they were untouchable," said Matthew Degn, who recently returned from Baghdad after serving as senior American adviser to the Interior Ministry. "They were above the law."

Russia Says U.S. Attack on Iran Would Be Catastrophic

> A U.S. military strike on Iran would have ``catastrophic consequences,'' Russian Deputy Foreign Minister Alexander Losyukov said.
>
> ``Bomb attacks on Iran would be a wrong move leading to catastrophic consequences,'' Losyukov said in an interview with newspaper Vremya Novostei, published on the ministry's Web site.
>
> Losyukov's remarks come two days after French Foreign Minister Bernard Kouchner said the world should ``prepare for the worst'' in the crisis over Iran's nuclear program, and that ``the worst is war.'' In Moscow today, Kouchner said eerything must be done to avoid war and called for all sides to ``negotiate, negotiate, negotiate without a freak.''