The Oil Drum: Canada

DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: September 25th 2007

Posted by Stoneleigh on September 25, 2007 - 4:22am in The Oil Drum: Canada
Topic: Miscellaneous
Tags: agriculture, climate change, credit crunch, derivatives, drilling, electricity, hydro, interest rates, mining, natural gas, nuclear, oil sands, royalties, sovereignty [list all tags]

source

The week after we saw bank runs in the UK, a measure of calm has returned to the markets thanks to a combination of central bank bailouts, government deposit guarantees and interest rate cuts. For all that heavy intervention, one derivatives market expert warns that we are still at the beginning of the beginning of the credit crunch.

On the Canadian energy scene, the debate over the Alberta oil and gas royalties review continues. Alberta, which has lower royalties than comparable jurisdictions, wants its fair share, but that could affect Ottawa's tax take. Investors concerned about the royalty issue seem keen to extract themselves from tar sands investments. With the Canadian dollar at parity with the US dollar for the first time since 1976, there are concerns about the ability of the Canadian economy to adapt and compete.

Concerns on the climate front center on the potential for methane-powered runaway warming thanks to new research on the Paleocene-Eocene Thermal Maximum. The direct relationship between carbon offsets and increasing child labour in the third world is also worth highlighting.

Are we headed for an epic bear market?

> One of the world's leading experts on credit derivatives, Das is the author of a 4,200-page reference work on the subject, among a half-dozen other tomes. As a developer and marketer of the exotic instruments himself over the past 30 years. He seemed like the ideal industry insider to help us get to the bottom of the recent debt crunch -- and I expected him to defend and explain the practice.

I started by asking the Calcutta-born Australian whether the credit crisis was in what Americans would call the "third inning." This was pretty amusing, it seemed, judging from the laughter. So I tried again. "Second inning?" More laughter. "First?"

Still too optimistic. Das, who knows as much about global money flows as anyone in the world, stopped chuckling long enough to suggest that we're actually still in the middle of the national anthem before a game destined to go into extra innings. And it won't end well for the global economy....

....When you add it all up, according to Das' research, a single dollar of "real" capital supports $20 to $30 of loans. This spiral of borrowing on an increasingly thin base of real assets, writ large and in nearly infinite variety, ultimately created a world in which derivatives outstanding earlier this year stood at $485 trillion -- or eight times total global gross domestic product of $60 trillion.

Fed Panics! - Era of Global Financial Market Instability

Wall Street loves cheap money. That's why traders were celebrating on Tuesday when Fed chief Ben Bernanke announced that he'd drop interest rates from 5.25% to 4.75%. The stock market immediately zoomed upward adding 336 points before the bell rang. The next day the giddiness continued. By mid-morning the Dow was up another 110 points and headed for the stratosphere. Everyone on Wall Street loves Bernanke. He brings them candy and sweets and lets the American worker pay the bill.

A Big Lift, or a Sign of Trouble?

Traders were ecstatic when the Federal Reserve cut interest rates by half a percentage point instead of the quarter-point move that many had expected. Whether the good times keep rolling or slow to a crawl as second thoughts emerge may become clear this week.

It could go either way, said Ed Yardeni, president of Yardeni Research. It depends on how much largess Wall Street is counting on from the central bank, and for how long.

“Markets look for something to worry about,” he noted. “There could be anxiety over higher inflation and the Fed taking back what it just gave us” by raising rates at some point. If a more benign view takes hold, he said, “getting back to all-time highs by year-end is also possible.”

Mr. Yardeni agreed with the market’s verdict on the Fed’s move, but he suggested that the big rate cut was a sign of a big underlying problem.

“There are so many linkages between global capital markets and the global economy that if the financial markets continue to remain in a chaotic state, it could cause not just a modest recession but a very severe one,” he said.

The easing of rates and huge injections of money into the system by the Fed and its counterparts in Europe and Britain are “clearly related to the

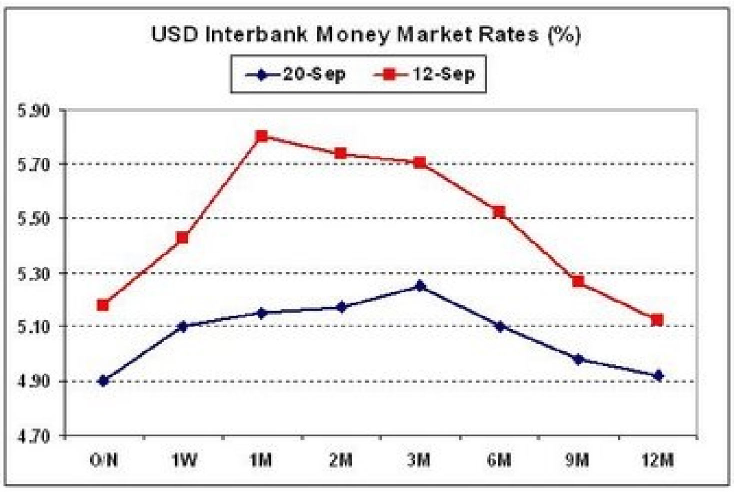
worst-case scenario being viewed as a big possibility."

[Bernanke: The anti-Robin Hood]

By slashing the federal funds rate, the Federal Reserve chief robbed from the country's future to give a gift to Wall Street. And a lot of ordinary Americans will end up getting hurt.

The Federal Bank of Guardian Angels roared down Wall Street last Tuesday. Its mission -- to bail out the stock market -- was a success (for now). But the rate cut was no gift to Main Street, which lies outside the loop of crony capitalism.

[The Real Reason For The Fed's 50 bp Cut]



The chart above shows the interbank money market yield curve for US dollars, from overnight (O/N) out to 12 months. These are the rates that banks charge each other to borrow for the period specified. When you hear LIBOR mentioned (London InterBank Offered Rate), these are the rates they refer to....

....So what does the above chart tell us? On September 12 the money market was truly ugly, with a big "hump" in the cost of money from 1 month out to 6 months. The spread in interest rates between 3 months and O/N was almost exactly 50 bp. The reason was that Asset Backed Commercial Paper (ABCP) that typically came due in 30-90 days was not being rolled over and everyone was scrambling for money to replace it. This is also why the ECB was constantly pumping huge amounts of money into the system: it was bailing out the banks' SIVs that could not find any money to replace their ABCPs (I wrote elsewhere that the ECB was doing the Fed's laundry - this is the reason).

At a borrowing cost of 5.70-5.80% against assets that yielded maybe 5.50% and leveraged 10-20x, various SIVs and other borrow short - lend long players were bleeding money like crazy. The situation was indeed critical and the cost of money had to be brought down sharply or the banks would have to sell collateral (CDOs, CLOs, etc.) in a depressed market and write huge losses in their books - If they could find a buyer, that is.

So the cost of money was brought down. Clearly 25 bp would not have done the trick - just look at the chart - and so the Fed cut 50 bp. It's as simple as that. Nothing to do with the economy, jobs, retail sales or the cost of peanut butter in Peoria. Ain't the truth fun?

Can the Fed Save You from the Credit Crunch?
(free registration required)

Once credit contraction begins, there is very little the Fed can do to stop it — though that doesn't stop consumers from believing that the Fed has the power to steer our economy. In fact, "seventy years of nearly continuous inflation have made most people utterly confident of its permanence."....

....You see, most people think that deflation is impossible because the Fed can simply print money to stave it off. The problem is, that is not the Fed's primary function. In fact, for the past 89 years, the Fed has fostered the expansion of credit that is now beginning to contract. The Fed has done this by setting and influencing short-term interbank loan rates, including the "discount rate," and by keeping interest rates low — which simply encourages banks to borrow from each other and to loan credit to their customers....

....Even if the Fed did start printing banknotes to try and reinflate our economy, there would be problems. For example, if deflation is underway, a defensive emotional environment could cause investors to panic if they see the Fed printing more money. That could simply trigger investors to lose all confidence in the economy and banking system.

Is The Fed Flushing Out The "Excess Credit" Demons?

My nitpick and refrain for well over the past year has been "reserve requirements matter (big time)". As most analysts acknowledge, but forget all too easily, reserve requirements (not interest rates) are the main lever available to the Fed for controlling the amount of credit in the financial system. The reserve ratio and other rules bearing on the quantity of reserves effectively control the "money multiplier" in a fractional reserve banking system such as ours. Lower reserve requirements allow more credit to be created — of all sorts. Reserves are the floodgates of the fiat money/credit system.

With this in mind, those generally suspicious of the Fed might not be surprised to find out that the Bernanke bunch is busy suspending even more reserve requirements for many major banks amidst this credit crisis. Specifically here I am referring to bank off-balance-sheet conduit subsidiaries (this is now how money market and similar vehicles are handled… which is a sketchy fact in and of itself). The Fed is apparently piling up exceptions to its regulation 23A, which normally mandates 10% reserves for such conduit entities. The exceptions "temporarily" suspend these reserve requirements. They are open-ended. Hmmm.

One would think in a time of financial crisis that the monetary authorities would be increasing capitalization requirements. Not so in the bizarro-world of the US Fed — maintaining the con a little longer is top priority. The Fed is doing this because it wants to forestall very visible outright collapses such as those seen in Germany (Sachsen, WestLB), France (BNP Paribas), The UK (Northern Rock) and Canada (Coventree), regarding bank off-balance-sheet vehicles imploding due to the credit crunch. Don't you think its a just a little bit funny that most other 1st world nations have seen major bank entity collapses due to our credit crisis, but we haven't? I say again, "hmmm".

In order to "prevent" such repeats here, the Fed is apparently allowing at-risk US banks to prop up to their conduit vehicles at the same time as reducing their collateral holding requirements for maintaining such vehicles. This makes such props look "free" — rather dishonestly (to say the least). I can't see how this could be interpreted as anything but incredibly imprudent in the long term. Anyone who needs such an exception probably shouldn't be given it.

Alan Greenspan and Jon Stewart on free markets versus central banking

Jon Stewart: Many people are free-market capitalists, and they always talk about free-market capitalism, and that is our economic theory. So why do we have a Fed? Is the free market – wouldn't the market take care of interest rates and all that? Why do we have someone adjusting the rates if we are a free-market society?

Alan Greenspan: You're raising a very fundamental question. … You didn't need central bank when we were on the gold standard, which was back in the nineteenth century. And all of the automatic things occurred because people would buy and sell gold, and the market would do what the Fed does now. But: most everybody in the world by the 1930s decided that the gold standard was strangling the economy. And universally this gold standard was abandoned. But: you need somebody to determine –or some mechanism – how much money is out there, because remember, the amount of money relates to the amount of inflation in the economy. ... In any event the more money you have, relative to the amount of goods, the more inflation you have, and that's not good. So:

Stewart: So we're not a free market then.

Greenspan: No. No.

Stewart: There's a visible – there's a benevolent hand that touches us.

Greenspan: Absolutely. You're quite correct. To the extent that there is a central bank governing the amount of money in the system, that is not a free market. Most people call it regulation.

[The Götterdämmerung of Central Banking]

The idea that large mortgages should be effectively government guaranteed beggars belief in principle. It also supports the overbuilt high end of the housing market, bailing out borrowers who, being richer, should be more able to bear the risk of lower house prices and higher interest rates than their poorer countrymen. It is a subsidy from the middle class to the rich, supporting the least productive, most energy-inefficient and least deserving sector of the US economy. John Edwards, he of the $400 haircuts and the 28,000 square foot home, is no doubt rejoicing at the news.

This is all very depressing. When King Philip II of Spain sat in the gloomy Escorial, counting his gold and silver hoard from the Americas, he doubtless pulled at his beard in puzzlement at where all the damn inflation was coming from. One rather hoped that modern central bankers had got beyond Philip's limited monetary understanding. However it appears that in times of crisis, when badgered by politicians, they revert to a sixteenth century worldview. It's as if after the Chernobyl nuclear disaster scientists had resorted to alchemy in the hope of preventing it happening again.

It is now clear that all the intellectual advances in central banking of the last 300 years have disappeared. Gone with the wind are the concept of "moral hazard," the idea that central banks should be independent of political control, the idea that lowering interest rates might cause inflation and the knowledge that widespread deposit guarantees and bank bailouts impose huge long run costs on taxpayers and the economy. In 1720 when the financial world was young and innocent this would have been forgivable; today as then it is likely to bring economic chaos in its wake.

[Did the Bank of England cave in to political pressure?]

Of all the major figures at the heart of the British financial system, no one has been more critical of the excesses of recent years than King. The Bank of England's quarterly publications have warned time and again of excessive leverage, the poor pricing of risk in the system and the dangers that could be posed by a freeze of liquidity. These warnings were spelled out in long explanatory documents rather than bold red letters. And no one paid much heed.

King made his point more explicitly in his speech to the Lord Mayor of London's banquet at the Mansion House on June 20. It was the first half of his speech that caught the imagination – an appeal to the banks to help him round up the nation's tatty old fivers, so he could replace them with the shiny new ones in the vaults at Threadneedle Street. But the real meat came later:

"Excessive leverage is the common theme of many financial crises of the past," he said, after detailing again the dangers inherent in complex financial instruments. "Are we really so much cleverer than the financiers of the past?"

Just one week later Northern Rock issued a profits warning. It was already apparent that the financiers of today were cursed with the same hubris as their forebears.

Master of the Universe (Rtd)

The appeal of Greenspan's memoirs should be relatively broad – they are at least more lucid than his famously opaque prose while in office. But what emerges from the book is that even he, who knew so much more than most, knew far less than most supposed.

Central bankers are an odd breed, somewhere between an international trade union and a fraternal masonic order, intimidating outsiders through a carefully inculcated awe of their unfathomable power and, notwithstanding recent disagreements on dealing with market turbulence, a powerful internal solidarity. Jean-Claude Trichet, now president of the European Central Bank, was once asked for his view of a frankly eccentric plan by the Bank of Japan to start buying equities to boost the stagnant Japanese economy. "We form a mutual admiration society," he told a gaggle of bemused journalists, tongue imperviously lodged in Gallic cheek, "so whatever the Bank of Japan suggests is necessarily the best way of doing it."

They would regard themselves as something like the Jedi Council – an ascetic elite who, through innate wisdom and arduous training, are entrusted with maintaining order in a galaxy permanently threatened by the dark, swirling chaos of price instability. In reality, as Greenspan makes clear, there is a good element of the Wizard of Oz. The darkest secret of central bankers is that they are generally working from the same data as everyone else.

Maestro Memoirs

More interesting than the book, however, is Greenspan's whirlwind promotion tour of it....

....Greenspan, in an interview in the Dutch newspaper NRC Handelsblad on Monday, warned inflation will rise to about 5 percent in Europe and the United States.

[Mish comment: Price inflation is a lagging phenomenon]

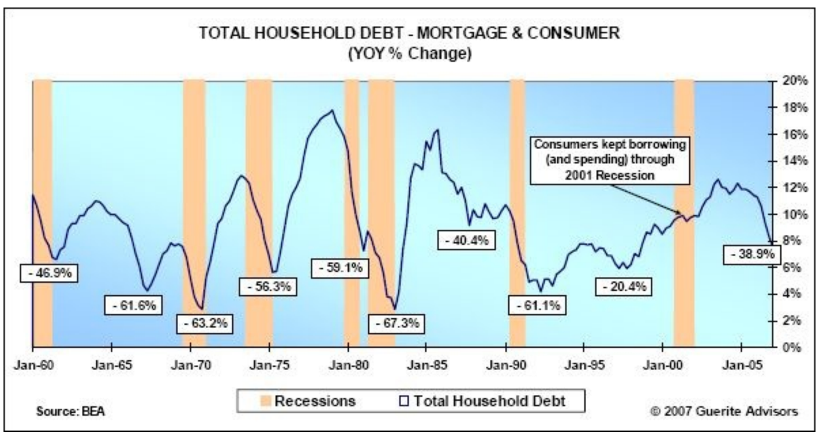
"The normal inflation level is closer to 5 percent than the current 2 percent," Greenspan said, adding that the 5 percent level fitted an economy with a "paper" standard where the currency is not linked to gold.

[Mish comment: That is an incredible statement. There is absolutely no such thing as a "normal inflation rate". Inflation is an expansion of money and credit and one reason money expands is the government spending hundreds of billions of dollars more than it collects in taxes.

There is nothing "normal" about spending more money than you make for decades. When consumers do it they eventually go bankrupt. When the government does it, the Fed willingly prints more money.]

Sea Change at the Fed

Let's run through the scenario that the US economy, and thus the world, faces. It is going to be many months before there is a functioning subprime mortgage market in the sense that mortgages can be packaged and sold to investors. We are first going to have to create transparency in the various banks to allow the commercial paper market to function. No one is going to buy commercial paper from a bank unless they are 100% sure they can get their money back. And you can't be sure unless there is transparency into the books of the lending institutions. And that includes all the SIVs or Special Investment Vehicles that allow banks to move liabilities off their books. Kind of. Sort of. Maybe. As long as there is not a problem. And then they come back.



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Dr. Robert Shiller of Yale said housing prices could fall as much as 50% in some areas given how home prices have diverged relative to rents. In effect, with what will be tighter standards for loans going forward, we are going to remove 10-15% of the home buyers that were in the market in 2005-6. That is a serious drop in potential demand. That in itself argues for a large drop in housing prices. Couple that with the rest of the housing market problems, and it could get ugly. Gary Shilling suggests a 25% drop. Dr. Roubini thinks 15-20%.

The total housing market value in the US is $20 trillion. Knock of $4 trillion, and you have a serious drop in the wealth of homeowners. For many, that completely wipes out equity built up over the years.

[A Reality Check for Home Sellers]

> Economists and other humans don't always see eye to eye. "Economists tend to think people are crazy because they won't sell their houses for less than they paid for them — and people think economists are crazy for thinking things exactly like that," said Professor Christopher Mayer, director of the Paul Milstein Center for Real Estate at Columbia Business School and an authority on real estate economics.
>
> With house prices falling in many markets around the nation, this particular quirk of the human psyche might end up costing the economy a great deal, Professor Mayer says.
>
> Classical economics can't explain this behavior. That's because people who refuse to sell their houses for less than they paid for them are violating a cardinal rule of the market: stuff is worth what it's worth. It doesn't matter what you paid for it. But when Professor Mayer and his co-author, David Genesove, a professor of economics at the Hebrew University in Jerusalem, studied the Boston condominium market in the 1990s — scene of one of the biggest real estate busts in recent American memory — the actual patterns of human behavior did not seem to follow the standard rules at all.

[Wolseley's fresh alert on US housing market]

> Wolseley, the plumbing and heating engineer, which makes half its income in America, gave warning today that revenues of its US building materials business have collapsed by almost 75 per cent.
>
> It has eliminated 3,500 staff and shut 46 branches.
>
> Trading profit from its Stock business has dropped 74.9 per cent to only $86 million (£42 million) during the year to the end of July.

[Banks cut card limits and reject borrowers in consumer credit crackdown]

> High street banks are slashing credit card limits and turning away droves of borrowers in a consumer credit crackdown. Banks hope that by tightening up lending standards they will cut the cost of servicing problem borrowers.
>
> Half a million Barclaycard customers have seen their credit limits reduced in a continuing review by Barclays of its customers' spending behaviour. The bank is rejecting half of all applications for cards and is monitoring card-users closely for signs of trouble.
>
> Barclays' action follows disclosure of impairment charges of £1.5 billion in its credit card business. Barclaycard revealed a 17 per cent fall in profits in the first half.
>
> Its confirmation of tighter credit terms will be bad news for retailers in the run-up to Christmas.

U.K. May Insure 100,000 Pounds of Depositor Funds

> The U.K. government may guarantee as much as 100,000 pounds ($202,000) of people's bank deposits as it seeks to avoid a repeat of the run on Northern Rock Plc, Chancellor of the Exchequer Alistair Darling said.
>
> Such a guarantee would effectively triple current U.K. savings protection. The system may be modeled on the U.S. bank deposit insurance program, Darling said. A U.K. Treasury spokesman confirmed comments Darling made to the London-based Times newspaper.
>
> Customers withdrew an estimated 2 billion pounds in savings from Northern Rock in the three days after the Bank of England said Sept. 14 it would provide the mortgage lender with emergency funding. The panic ended when the government agreed to guarantee all deposits at the Newcastle-based bank, prompting widespread calls for an overhaul of how Britain protects depositors.

Week that shook the banking world

> On Monday evening Mervyn King believed the first real crisis of his Bank of England stewardship had – as he put it to friends – been sorted.
>
> Beset by images of customers rushing to withdraw their money from Northern Rock, Alistair Darling, the chancellor, had offered depositors a blanket assurance that their cash was safe.
>
> But within five days, Mr King's optimism had been proved comprehensively and humiliatingly unfounded. In one of the most extraordinary weeks in British banking history – one which saw the global credit squeeze spill on to the nation's streets – the Bank had on Wednesday performed an abrupt volte face. It had decided to extend emergency lending against mortgage collateral to all banks – a step that just 24 hours earlier the governor had privately ruled out.
>
> As the week draws to a close the focus of account holders and bank chief executives alike is on what happened in those missing hours. What persuaded the Bank to capitulate and throw its own money and good name into rescuing commercial banks from their own funding mistakes?

Price Stability & Top Secret Missions

> Bank of England Governor Mervyn King said today that British and European Union laws complicated plans to rescue Northern Rock Plc and prevented the Bank from acting covertly to prevent a panic. "The interaction between different pieces of unconnected legislation made it almost impossible for us to act as a lender of last resort in the way that I would prefer."

What way does Mervyn King prefer? Covertly of course. The Bank Of England does not want anyone to know what it's doing. (For that matter neither does the Fed). This is interesting because just a week ago Governor King said it was a moral Hazard to bail out Northern Rock. I guess there is no moral hazard as long as it can be done on a top secret mission and no one knows.

Fears short-sellers will focus on new bank

The biggest shareholder in Northern Rock warned on Friday that aggressive short-sellers would pick a new mortgage bank to target if the Bank of England did not maintain "indefinite" support for the Newcastle lender.

Mr Richards fears the Bank will force Northern Rock to hold a firesale of its mortgage book so it can end financial support, a move which could wipe out the value of the equity.

He said if this were done hedge funds would take estimated profits of £1bn-£1.5bn from shorting Northern Rock and move on to a new target.

On Monday the shares of Alliance & Leicester plummeted almost a third and Bradford & Bingley fell 15 per cent before the government stepped in to guarantee the deposits of savers at Northern Rock. The Bank said the guarantee would extend to customers of any lender hit by the turmoil.

"If the shorts do win then sure as eggs is eggs they are going to move on and try to drive down the shares and cause a run on the next bank," he said. He predicted savers would start queueing to withdraw money from banks which saw their shares plummet.

Northern Rock turned down JP Morgan rescue proposal

A source familiar with the situation said: "JP Morgan advised them of their problems some months ago. There was extensive financing offered, albeit the management would have had to swallow some unpalatable truths."

Sources close to Northern Rock claimed JP Morgan had only offered around £500m to Northern Rock, although the loan is believed to have been part of a wider funding solution proposed by the US banking giant.

JP Morgan's emergency funding package contained a number of severe conditions, such as punitive interest rates. Sources speculated that Northern Rock may have had to sell off mortgage assets at heavily discounted values.

Northern Rock still lending ‘recklessly’

Northern Rock stands accused of “reckless” lending after it emerged this weekend that the beleaguered bank is still offering mortgages of six times salary to potential borrowers.

Despite provoking the worst banking crisis for decades, the bank last week offered a reporter posing as a first-time buyer a £180,000 mortgage even though he had a salary of only £30,000.

The loan was at least £30,000 more than other leading lenders were prepared to offer. Repayments for the loan would have accounted for more than 60% of the fictional buyer's take-home salary.

The reporter, posing as another potential customer, was also offered a so-called "negative equity mortgage" worth 117% of the value of the property he claimed to be interested in buying. **The mortgages offered by other banks to the same potential borrower were significantly lower.**

Financial experts were this weekend stunned that Northern Rock is offering such loans a week after it was forced to turn to the Bank of England for emergency funding. Yesterday it emerged that Northern Rock has been forced to borrow about £3 billion from the Bank in the past week.

Three hedge funds plan Northern Rock raid: paper

Three leading hedge funds are planning a break-up of beleaguered British bank Northern Rock , according to a newspaper report on Sunday.

The move could generate hundreds of millions of pounds in profits but would leave shareholders with virtually nothing, the Sunday Telegraph said.

The plan is to acquire the bank's mortgages at below face value and make a big profit by holding them until they mature. The proposed deal would see the funds divide up the mortgage book, worth more than 100 billion pounds ($200 billion),

The paper said Chris Flowers, the former Goldman Sachs banker who made a fortune from the rescue of Japan's Long Term Credit Bank in 2000, was among the group, along with the funds Cerberus and Citadel.

The funds, however, have yet to approach the Northern Rock board. A Northern Rock spokesman declined to comment.

Britain's fifth-largest mortgage lender has been seen as a likely takeover target after being engulfed by a funding and customer confidence crisis, triggering the worst run on a UK bank in living memory.

Valuing Northern Rock

Northern Rock's market capitalisation has shrunk to less than 1 per cent of its assets. That means wild swings: within one hour the shares moved by 36 per cent. It has also attracted bottom-fishers, with a prominent hedge fund taking a stake and buy-out vehicles said to be circling. Clearly, if Northern Rock's business recovered fully, it would be a steal on about two times 2006 earnings and half of adjusted book value. But there is a convincing case that the shares will fall further.

Critically, market borrowing rates – three-month Libor is 6.36 per cent – remain above the roughly 6 per cent yield on Northern Rock's loan book. If this book was gradually run down and funding rolled over at market rates, net interest margins would turn negative.

The Bank of England and Treasury would dearly love to see Northern Rock shareholders wiped out. There seems to be a good chance they will be.

Could a run on a bank happen in the U.S.?

It seems like only a few weeks ago that bankers and financial gurus around the world were confidently predicting that the subprime mortgage mess in the U.S. was a local problem that would not affect the global markets.

Then came last Friday, and we all awoke to pictures of British savers lined up in Depression-era, breadline formation to yank their funds out of Northern Rock after the British banking company said it needed to be bailed out by the Bank of England. By Monday, people had begun withdrawing money from other British banks, and by the time things calmed down the government had to step in and pledge to stand behind all deposits at Northern Rock.

Our own experts were quick to point out that such a run is unlikely to happen in the U.S., given that we have a different banking system with more extensive guarantees on deposits, etc. Don't bet on it.

The Northern Rock panic is just the latest turn of a global storm whose next direction nobody can predict. Who would have thought it would hit E-Trade Financial Corp., or H&R Block Inc., or the German banking system?

The amazing growth in the trading of credit and mortgage-backed derivatives over the past 15 years has created a global system by far superior to anything in the past when things are going well, but hugely vulnerable to shock from these little time bombs when things turn sour, as they have in the U.S. real estate market.

French finances in great difficulty: Trichet

European Central Bank President Jean-Claude Trichet said on Sunday that French public finances were in trouble and that the country must respect its European commitments.

Tension is high between the ECB and France's government, with President Nicolas Sarkozy repeatedly blaming ECB policies for sluggish domestic economic growth and the euro's strength.

France has also come under pressure from its euro zone peers to do more to cut its budget deficit.

ECB head bemoans state of French finances

France "has not been well managed for a long time" and "has enormous progress to make," said Trichet, himself a Frenchman and former governor of the French central bank, the Banque de France.

"The deficits of today weaken the economy, and our spending today will weigh on our children and on our grandchildren."

Trichet's comments came after French Prime Minister Francois Fillon had said on Friday that the French state was "in a state of bankruptcy" -- comments which Trichet said the prime minister was "right" to make.

Fillon had said on a visit to Corsica that France "has been in chronic deficit for 15 years ... and has never voted through a balanced budget in 25 years."

Since coming to power in May, French President Nicolas Sarkozy has caused alarm among Paris's eurozone partners for his plans to cut taxes in order to jumpstart economic growth -- plans that make much harder the goal of balancing France's budget.

Who is Going to Blink with Currencies?

So, just from a currency standpoint, there are very strong opposing forces to either strengthen or weaken the ratios of these currencies, while key levels are being hit, such as 1.40 for the USD/Euro. The world central banks, as well as their economic constituencies are going to have to consider if they will allow or can stand key ratios of the past to be decidedly broken, as in the USD dropping to the 78 range on the USDX.

The currency situation is rebalancing, and even perhaps telling us that a major phase change is occurring with their ratios, meaning major changes in progress for the world economy, trade balances, and just about everything economic. Basically, the whole system has been based on a relatively strong USD (stronger than it really should be).

A key part of this currency situation is going to be rebalancing of large carry trades in the Yen and European currencies such as the Swiss Franc. This is going to be a major liquidity issue.

The almighty dollar

The realities of parity

The Canadian policy environment now is no doubt more conducive to businesses thriving in an era of parity. Their plans no longer have to factor in a cushion for unforeseen inflation. The flexibility of the Canadian economy has continued to astound analysts as the dollar has shot up from 62 cents in 2001.

Excess labour in the East has moved West. Toronto's financial services sector has embraced the oil sands. The improved terms of trade with high commodity prices have trickled down efficiently, raising disposable income across the country and fuelling a sustained consumption boom.

"It's so much easier to deal with parity when the whole boom and bust is not constantly hanging over you," says Bill Robson, who heads the C.D. Howe Institute.

But the global environment is far less benign. International competition is fierce. The U.S. market can no longer be taken for granted. Massive pools of cheap labour in emerging markets can replicate almost anything mass-manufactured here, for lower prices. Those same emerging markets, however, with their billions of people entering a new middle class, also ensure markets for Canada for years to come.

A Canadian dollar at par, in a sophisticated, fast-moving and hyper-competitive global economy, means that Canadian businesses must match those qualities. "We're not ready for it," says Perrin Beatty, who heads the Canadian Chamber of Commerce. "Can we handle it? Yes, we can, but we have to handle it with greater urgency."

The dark cloud? The U.S. economy

For too long, Americans have been gorging on cheap credit and foreign oil, and all things that go with the lifestyle – monster homes, big cars and big-screen TVs. For 15 years, the U.S. economy has been a magnet for global products and credit.

Now the patient is overindulged; his credit card maxed out.

The dollar is falling in large part because foreigners are no longer willing to pay for all this excess. They're worried the housing meltdown and the faltering auto industry could drag the economy into recession. And this week, Ben Bernanke and the U.S. Federal

Reserve injected a new concern into the mix – that cutting short-term interest rates could fuel inflation.

This is isn't a story about the Canadian dollar, which is at par for the first time in 30 years – it's all about the United States.

The greenback is tumbling against virtually every currency that isn't pegged to the dollar, including the euro, the yen and the pound.

World Economy in Flux As America Downshifts

American consumers' endless confidence and insatiable appetite at the mall appear to have been jolted by falling house prices and, more recently, tight credit conditions. "The forces that had been supportive to excess consumption for a decade are now headed the other way, and the U.S. consumer just can't keep driving...America's current-account deficit to higher highs," says Stephen Roach, chairman of Morgan Stanley Asia in Hong Kong. Mr. Roach calls that "one of the key conditions...that could be critical in triggering a long-overdue rebalancing of the global economy."

Indeed, the slowing domestic economy already appears to be stifling growth in American demand for foreign goods. The U.S. share of global imports has fallen to 14.3%; the lowest since the recession of 1991-92, according to IMF data. In 2000, the U.S. soaked up 18.8% of world imports. By contrast, Brazil, South Africa, India and other developing countries now account for 40.1% of global imports, up from 28.4% in 1991. "We're not the sole market of last resort," says Mr. Quinlan, the Bank of America strategist.

The slowing economy and uncertainty about U.S. financial markets are feeding back into the currency markets. "I expect to see more and more weakening of the dollar in the coming months and years," predicts Princeton economist Alan Blinder, a former vice chairman of the Federal Reserve Board. Currency trends are notoriously hard to predict, though. Mr. Blinder confesses that he thought the dollar was embarking on the long march downwards in 2002, only to see it pick up again in 2004. The Japanese yen has not gained much ground on the dollar compared to 10 years ago.

Loonie's rise to parity really a story about oil

The rise, in a rush of five pennies in the past 10 days alone, marks a remarkable transformation for a country that limped out of the tech-wreck with little to look forward to except stagnant wages, flagging productivity growth and calls to abandon the currency altogether for the once-mighty greenback.

Consider what has happened since: the unemployment rate has slid to a 30-year low of 6.0%, wage gains are rolling along at a 4.0% clip, the Toronto stock market is near record highs, house prices have soared, government coffers are overflowing, the strong dollar has helped turn us into champion consumers and we are on the cusp of becoming a creditor nation -- joining the elite ranks of countries like Germany that own more abroad than they owe.

And oh yeah, the world has finally figured out that Canada holds the world's second-largest oil reserves after Saudi Arabia.

While historically low interest rates have aided this transformation -- stoking housing and providing an offset to manufacturing that has been clobbered by the loonie -- at its heart, this is a story about oil.

Wave of petrodollars from the emirates sets western stock markets alight

The jostling for dominance among the world's leading stock market operators has seen many alliances and feuds, but it has rarely had a day as dramatic as last week, when some of the Middle East's most powerful sovereign funds took the sector by storm.

Competing Gulf emirates of Dubai and Qatar on Thursday splurged an estimated £1.6bn or more on shares in the London Stock Exchange and Nordic bourse operator OMX. At the same time, Dubai struck a partnership deal with Nasdaq which it hopes will eventually deliver a stake worth an estimated £1bn in the US operator.

From Carlyle Group to P&O, from Ferrari to Four Seasons, Gulf sovereign funds have been rapidly scooping up major interests in some of the western world's biggest businesses. They have not been this active since the oil price peaks of the 1970s - and, with the era of cheap borrowing apparently at a close, there is every sign such cash-rich funds could again pick up the pace of their overseas investment programmes.

Short-term Canadian Natural Gas Deliverability 2006-2008

In October 2006, the Board released its Energy Market Assessment "Short-term Canadian Natural Gas Deliverability, 2006-2008" ("the 2006 EMA"). The EMA presented an outlook for Canadian gas deliverability based on projections of gas well drilling activity and well production characteristics.

The Board is providing this update to its outlook of short-term natural gas deliverability to reflect the impact of reduced gas drilling activity since mid-2006 in the Western Canadian Sedimentary Basin (WCSB).

About 98 percent of Canadian gas production comes from the WCSB and new gas wells play a vital role in maintaining basin deliverability. A reduction in drilling activity in the WCSB began in 2006 and has continued in 2007. Lower gas prices, increasing drilling costs and decreasing productivity of new gas wells are all factors that contributed to the current downturn in gas drilling activity in the WCSB. Fewer gas wells being drilled leads to a lower expectation of deliverability.

Canada's New Government funding mineral exploration in areas impacted by Mountain Pine Beetle

The Honourable Gary Lunn, Minister of Natural Resources (NRCan), today announced steps to aid new mine and energy projects in British Columbia as part of Canada's Mountain Pine Beetle Program, a multi-pronged approach to address the economic impacts of the beetle infestation.

Canada's New Government is awarding two survey contracts worth $1.73 million to provide basic geoscience knowledge essential to the search for new mineral and energy deposits in areas of B.C. affected by the mountain pine beetle. Minister Lunn made the announcement at the Union of B.C. Municipalities Pine Beetle Conference.

"Mineral and energy exploration is one of the most effective ways to help diversify the resource economies of beetle-infested areas," said Minister Lunn. "Over the long term, new mine and energy projects can provide good jobs in forest-dependent communities ravaged by the mountain pine beetle."

[Oil patch readies challenge to royalty review]

The oil patch plans to challenge a controversial report that says Albertans aren't getting their fair share of oil and gas revenues and recommends a major boost to provincial royalties.

The energy industry has been up in arms since last week's release of the much-anticipated royalty review report, with one senior executive calling it "Draconian" as stock prices drifted downward.

Some oil analysts compared the measures to those taken in Venezuela and former Soviet-bloc countries where royalty regimes change without warning, generating the mocking title of "Albertastan."

Premier Ed Stelmach says he's willing to consult with the oil patch and others before making a final decision in early October.

But with a provincial election looming within a year and opinion polls near historic lows, the issue couldn't get bigger for the Alberta leader still trying to find his stride after taking over from Ralph Klein late last year.

[Royalty review just good business]

It's important to note that what is being discussed is not taxation but the royalty paid to Albertans who own the lion's share of subsurface mineral rights in the province. And they are not getting as much revenue from their resources as competing jurisdictions are, according to the report. Industry spokesmen dispute the numbers and say Alberta's take is already high enough, and any higher will drive away investment.

"We will make sure we get it right," said the Premier in a luncheon address at the Global Business Forum in Banff attended by CEOs and others.

That's, quite frankly, his job to juggle public and private interests for mutual benefit, which is why the most critical figures in this report are comparisons.

For instance, conventional oil and gas royalties and taxes in the U.S. average 67% while they are 50% in Alberta, said the report.

Non-conventional oil production -- offshore and heavy oil -- is another interesting story. Heavy oil royalties in Cold Lake are 60% compared with Norway's offshore royalties of 76%, California's heavy-oil royalties (and taxes) of 67.5% and Venezuela's 72%.

Ottawa faces hit on higher royalties

Proposed changes to Alberta's oil and gas royalty regime could substantially reduce Ottawa's federal income tax take by hundreds of millions of dollars, potentially setting the stage for a renewed struggle between federal and provincial governments over how revenues from energy projects are allocated in Canada.

Last week, a report commissioned by the Alberta government said the province hasn't been getting its "fair share" from its energy resources and advocated wholesale changes to its royalty structure, including substantial hikes to oil sands taxes and a new so-called "severance tax" that would recoup proportionally higher rates as commodity prices rise.

If the recommendations are implemented in full, energy firms would end up paying an estimated extra $2-billion a year in royalties and new taxes to Alberta.

Companies paying federal income tax can make deductions to account for royalties paid, so any increase in Alberta's royalty receipts would reduce how much income tax is taken in by Ottawa.

Oil chief warns against killing 'golden goose'

Both the Alberta government and the oil industry agree there is room for compromise in the controversy over a possible jump in Alberta's oil and gas royalty rates.

Murray Edwards, the Canadian oil industry's top entrepreneur, said yesterday industry leaders have known for a long time they could some day be asked to pay higher royalties in Alberta. But he added that Tuesday's recommendations calling for an across-the-board 20% in taxes and royalties would have a significantly negative impact on projects, both in the oilsands and for conventional oil and gas producers.

"The [industry] leaders have never said there wasn't opportunity for changes but they have also said, 'Let's make them changes that don't throw the baby out with the bathwater,' " Mr. Edwards said in the wake of Alberta's controversial royalty review, which has divided the province and been criticized by the financial community since Tuesday for its potential to kill investment in the oilsands and slay the province's "golden goose" of oil and gas riches.

Have oilsands lost their lustre?

Dennis Gartman says he's not bearish on Canada, he is just moving to the sidelines for now thanks to the possibility that Alberta will raise taxes on the oil industry.

After contributing to the negative sentiment on Canadian oilsands names (like his once-favoured Suncor Energy Inc.) on Wednesday by writing in a "special note" that he wants out of all things Canadian, a day later Mr. Gartman stressed that he is now simply neutral on the loonie and other things Canadian, and no longer its "biggest cheerleader."

"If our concerns regarding this new tax regime prove ill founded, we'll not hesitate for a moment to return in full to our bullish position," the economist and editor of the Gartman Letter said in his influential investment newsletter.

Canada’s oil nationalism

Cries of “O Canada” have not all been of the patriotic kind recently. An independent panel has recommended that Alberta jack up the province’s tax-take from the energy sector. Stocks in Canadian oil majors have plunged as a result.

Reports of the sector’s doom are much exaggerated, but it is easy to see why the reaction has been so dramatic. Alberta’s reserves may be second only to Saudi Arabia’s – albeit in the form of oil sands rather than conventional crude. To some, they offer hope of countering the market power of the Organisation of the Petroleum Exporting Countries.

Sudden change in fiscal regimes is bad for planning. Yet it is hardly surprising that a resource-rich government wants a bigger slice of the pie when oil is topping $80 a barrel. At an estimated 64 per cent share of the value of oil sands projects, Alberta’s “take” would remain moderate compared with the likes of Venezuela and Russia. And the Canadians are at least being upfront about simply wanting a bigger cheque, rather than hiding behind professed environmental concerns.

Show us the math, oil industry says

The oil industry published its first formal response yesterday to Alberta's major report on royalties and taxes but complained it doesn't have enough information to issue an in-depth counterargument....

....The Canadian Association of Petroleum Producers, in a one-page press release yesterday, said the "panel ignores the real costs facing the industry," adding that the cost of an average oil sands project is about $11-billion, rather than the $6-billion cited in the review report.

Such costs have been driven by the rising international price of steel but also because energy executives have been too optimistic about how quickly and cheaply workers can build large industrial facilities.

B.C. beckons Alberta's royalty-shy producers

> Spooked by proposals to significantly increase petroleum royalty rates in Alberta, Calgary's oil and gas producers are looking to British Columbia as a safer haven for their investments.
>
> And a set of incentives introduced by Victoria appears to be paying off already, based on the last two petroleum lease auctions conducted in B.C.
>
> "The [Alberta royalty] proposal is fairly sweeping," said Dave Pryce, Western Canada vice-president for the Canadian Association of Petroleum Producers (CAPP). "But assuming they [the Alberta government] do make some changes in line with the report, it can only help B.C. There's a real potential on the gas side for people to look at B.C. now rather than Alberta."
>
> Gary Leach, executive director of the Small Explorers and Producers Association of Canada, had a similar reaction when asked whether hikes in Alberta oil and gas royalties will help neighbouring jurisdictions.
>
> "Yes it will," Mr. Leach said. "I know there are already some investment reports out saying dump companies that are 100-per-cent or hugely exposed to Alberta."

A national energy pipe dream

> There is a recurring phenomenon in the business press: Canadian energy executives, faced with a morass of public policy failures, perverse regulations, inconsistent provincial regimes, and unpleasant surprises (of which this week's Alberta royalty review is the most recent) beg for a more coherent system. Call it, if you will, a national energy policy. Somebody in the media will then respond: "Well look at how they've changed their tune! They hated the National Energy Programme. Now they're asking for the feds to take charge. Why can't they make up their minds?"
>
> This was the treatment given to statements emerging this week from Canadian executives at an Energy Roundtable in London.
>
> A CEO panel at the conference produced quite sensible calls for policy coherence from Ottawa and the provinces. This was treated in certain sections of the media as some form of inconsistency. But the oil industry didn't reject the 1980 NEP because it was a policy , they rejected it because it was a bad policy.
>
> Although "Remember the NEP" remains a rallying cry in Alberta, there is evidence that its policy lessons have not only been forgotten, they were never even learned. Indeed, activist politicians have little interest in learning such lessons.
>
> For example, Newfoundland's Danny Williams, apparently oblivious to the coast-to-coast disasters wreaked by energy Crown Corporations, is creating an expansive, provincially-controlled "Energy Company."
>
> Both Premier Williams' policy and the Alberta royalty review are heavy on populist pretension. Both reflexively assume that putting more money in government hands is a "good thing." Both effectively threaten: "If you don't like it, go elsewhere."

Tory vows to fast-track nuke plants

> Progressive Conservative Leader John Tory is vowing to fast-track the building of more nuclear power plants by any means available in an apparent reversal of a stand he took just months ago.
>
> The pledge came yesterday as energy issues took centre stage in the campaign to the Oct. 10 provincial election, with NDP Leader Howard Hampton calling for lower electricity rates to help struggling Northern Ontario mills and Premier Dalton McGuinty rejecting the idea.
>
> Tory said the nuclear approvals process, including mandatory environmental assessments, takes "too long" and Ontario can't take a chance on having enough electricity. It takes nine or 10 years to get a nuclear plant up and running.
>
> "The people of the province need to know that when they get home at the end of a long day and turn on the lights that those lights will come on," he told reporters in Tiverton, the Bruce Power nuclear generating station on Lake Huron looming large behind him.

Wind vs. Water in Giant Dam Dispute

> Hydro Quebec's main purpose for diverting the Rupert River in Northern Quebec is for hydro production in order to sell power to the northeastern United States.
>
> U.S. environmental groups such as the Natural Resources Defence Council, International Rivers Network, Friends of the Earth USA, the Sierra Club and Project Laundry List have joined in support of Canadian civil society organisations and three Cree communities who will be directly affected by the project. Many of the same groups were involved in convincing then New York governor Mario Cuomo to back out of a deal with Hydro Quebec in 1992 during discussions for an environmentally sensitive hydro expansion.
>
> The river, once dammed, will form a massive reservoir equivalent in size to 67 percent of the city of Montreal, or half of New York City.
>
> Dr. Brent Blackwelder, president of Friends of the Earth USA, told IPS, "This is another gigantic scheme of Hydro Quebec to divert water with the goal of satisfying U.S. electricity gluttony. We have opposed large dams generally as a solution to global energy problems."
>
> "This project is a massive scheme to rearrange the river systems in Canada," he said. "In James Bay, they put this process in motion by trying to dam some of North America's greatest rivers. Canadians shouldn't use American electricity demand as an excuse to develop a project that will be an environmental and human rights catastrophe."

Agriculture in a post-oil economy

> The decline in the world's oil supply offers no sudden dramatic event that would appeal to the writer of "apocalyptic" science fiction: no mushroom clouds, no flying saucers, no giant meteorites.
>
> The future will be just like today, only tougher. Oil depletion is basically just a matter of overpopulation — too many people and not enough resources.
>
> The most serious consequence will be a lack of food. The problem of oil therefore leads, in an apparently mundane fashion, to the problem of farming.
>
> To what extent could food be produced in a world without fossil fuels? In the year 2000, humanity consumed about 30 billion barrels of oil, but the supply is starting to run out; without oil and natural gas, there will be no fuel, no asphalt, no plastics, no chemical fertilizer.
>
> Most people in modern industrial civilization live on food that was bought from a local supermarket, but such food will not always be available. Agriculture in the future will be largely a "family affair": without motorized vehicles, food will have to be produced not far from where it was consumed. But what crops should be grown? How much land would be needed? Where could people be supported by such methods of agriculture?

France mulling freeze on GM crops: report

> France is planning a freeze on commercial genetically modified crops, which cover less than one percent of farmland in Europe's top agricultural producer, Le Monde newspaper reported on Thursday.
>
> According to the paper, the government is preparing to announce a halt to sales of GM seeds at a national conference on the environment taking place next month, involving farmers, business and advocacy groups.
>
> Quoting Environment Minister Jean-Louis Borloo, Le Monde said the government wanted a freeze while working on a new law on GM crops, after ruling that it is impossible to stop the genes of GM crops spreading in the environment through pollination.

The market ingredients are put in place for a more costly full English breakfast

> The cost of a cooked British breakfast is about to surge as price inflation grips the animal feed industry and threatens to create shortages of food staples, such as eggs, as well as soaring bacon, dairy and bread prices.
>
> The inflationary spiral in wheat, which last month forced up the price of a British loaf, is creating havoc in the farmyard.
>
> A leading UK egg producer, Noble Foods, gave warning yesterday that farmers were

quitting the egg business, unable to afford the cost of feeding hens.

Noble, which supplies about 40 per cent of the UK market, said that a number of its producers were cancelling orders for chicks to be raised ahead of the Christmas laying season, raising the prospect of egg shortages for the first time since the Second World War.

“Farmers are deciding not to buy pullets. There could be shortages in the market in the weeks leading up to Christmas,” Finn Cottle, the marketing director, said.

Egg consumption rises by 50 per cent in the run-up to Christmas, as families have more cooked breakfasts in winter and bake cakes.

The cost of animal feed, mainly wheat and soya, represents half the cost of keeping hens and those ingredients have doubled in price over the past year.

Clean environment equals healthy Canadians

Report David Suzuki Foundation

Currently, many Canadian health and environment laws and policies are weaker than corresponding laws in other nations. For example:

- Canada does not have legally binding national standards for air quality and drinking water quality;
- Canada permits the use of pesticides that other countries have banned for health and environmental reasons;
- Compared to other nations, Canada allows higher levels of pesticide residues on our food;
- Canada has completely failed to regulate some toxic substances such as polybrominated diphenyl ethers (PBDEs), phthalates, and polycyclic aromatic hydrocarbons (PAHs); and,
- Canada has weaker regulations for toxic substances such as radon, lead, mercury, arsenic, and asbestos.

The Great Lakes disappearing act

Water levels have fallen in all five of the Great Lakes and the long-term outlook is worrying, experts say.

Lake Superior: It's 54 centimetres below typical late-summer levels for the past century, and has dropped 29 cm in the past year as drought-like conditions afflict Northern Ontario and adjacent U.S.

Lakes Huron and Michigan: Levels are 58 cm below the long-term average and have dropped 13 cm in the past year.

St. Clair River: Environmentalists contend the Great Lakes have sprung a man-made leak in the vicinity of Sarnia that is draining away water at the rate of 116 cubic metres every second. This loss exceeds what is used in Chicago, the largest urban area on the lakes. The leak was allegedly caused by dredging in the early 1960s by the U.S. Army Corps of Engineers to make the river 60cm deeper to accommodate larger vessels.

St. Mary's River: The river drains Lake Superior. Flows have plunged to 1,560 cubic metres a second. The amount of water in the river would have to rise about 50 per cent merely to reach the long-term average for this time of year of 2,350 cubic metres a second. The low flow bodes ill because Lake Superior is the single largest source of water replenishing the four downstream lakes.

Canada: Losing Water Through NAFTA

Under the North American Free Trade Agreement, Canada lost control over its energy resources. Now, with “NAFTA-plus”, it could also lose control over its freshwater resources, say experts.

Canada’s water is on the trade negotiating table despite widespread public opposition and assurances by Canadian political leaders, said Adèle Hurley, director of the University of Toronto’s Programme on Water Issues at the Munk Centre for International Studies.

A new report released Sep. 11 by the programme reveals that water transfers from Canada to the United States are emerging as an issue under the auspices of the Security and Prosperity Partnership (SPP). The SPP — sometimes called “NAFTA-plus” — is a forum set up in 2005 in Cancún, by the three partners, Canada, United States and Mexico.

Economic integration as envisioned by the powerful but little-known SPP is slowly changing the lives of Canadians, says Andrew Nikiforuk, author of the report “On the Table: Water Energy and North American Integration”.

Stop 'rogue' Canadian mining operations abroad, MP urges

The federal government should immediately crack down on the unethical and destructive practices of Canadian mineral extraction companies that profit from weak laws and regulations in developing companies, NDP foreign affairs critic Alexa McDonough said Wednesday.

At a joint news conference with representatives from an advocacy group and a mining industry watchdog, McDonough said the Harper government is dragging its feet on the issue, six months after a government task force issued a call for intervention.

The task force, a round table of experts focused on general issues of corporate responsibility, called for a new standard for Canadian companies and the appointment of an independent ombudsman to verify compliance.

"It doesn't have to be this way," said McDonough, who just returned from a fact-finding trip to Honduras, noting that there were many examples of "rogue" companies with destructive mining practices operating in the Central American country.

"In Honduras, their (impacts) included water polluted with arsenic and cyanide, and at least one community displaced from their land to a situation of uncertain tenure."

Quebec's lakes, rivers in sorry state

On Tuesday, Premier Jean Charest will preside over the one-day meeting in Ste. Adèle that will bring together lake ecosystem experts, municipal and provincial politicians, river and lakeside cottage and homeowners, the provincial farmers union and some regional environment groups.

Summer may be officially over, but the cyanobacteria, more commonly known as blue-green algae, are still blooming hardily.

At last count, 156 of the province's lakes and rivers were affected. That's up from 50 in 2005 and 107 in 2006.

This is not a new problem. The algae has always been present in Quebec, but over the last decade, it has flourished out of control scientists say, because of an excess of nutrients in the water, mainly phosphorus, nitrogen and carbon.

The Dutch government takes a stand -- against cars, for bikes

The Dutch government has taken a trend to promote eco-friendly cities a step further than its European neighbors by announcing firm measures to discourage cars and driving.
The plan was outlined in the 2008 budget presented this week, and the capital Amsterdam -- a leader in the drive -- and other Dutch cities will use a "no car" day on Sunday, an annual event, to press home the message.

In the traditional speech from the throne read out by Queen Beatrix, the centre-left cabinet said it would raise taxes on diesel fuel and vehicles using it. Laws are also being drawn up to make taxes dependent on how much pollution a vehicle emits: the more polluting, the higher the fee.

Court action presses Ottawa to obey Kyoto

A legal action launched yesterday urges the Federal Court of Canada to force the federal government to live up to its obligations to reduce greenhouse-gas emissions under the Kyoto Protocol.

The application alleges that an emission-reduction plan filed by the government last month fell so far short of meeting Canada's Kyoto commitments that it flouts previous legislation binding the government to strict targets.

"The Plan explicitly does not aim at complying with the Kyoto Protocol, and therefore does not conform to the requirements of the Act," lawyers Chris Paliare and Andrew Lokan wrote in the application, filed on behalf of Ecojustice Canada and Friends of the Earth Canada.

[Canada's Greenhouse Gas Plan Rapped by Govt Panel]

Canada's own environmental advisory body criticized the government's plan to cut greenhouse gas emissions just days before Prime Minister Stephen Harper was to discuss his climate change policy in New York. Harper introduced the plan this year to replace the Kyoto protocol on climate change, which he said imposed impossible targets on Canada. He aims to bring greenhouse gas emissions 20 percent below current levels by 2020.

But the National Roundtable on the Environment and the Economy said important parts of the plan were vague and exaggerated the extent of emissions cuts. In a report released late on Friday, the group pointed to inconsistencies in the government's calculations and said some of the data was either too murky or too skimpy.

It said that while the plan would result in "significant emissions reductions and contributions to future emissions reductions," the methodology used to calculate the cuts "represents an important inconsistency in accounting for emissions reductions." Green groups and opposition parties say Canada should stick to its Kyoto targets, which call for a 6 percent cut in Canadian emissions from 1990 levels by 2012.

Data for 2004, the latest year available, shows emissions were around 35 percent above the 2012 Kyoto target. Much of the increase took place while the previous Liberal government was in power, from late 1993 to early 2006.

[Climate change: A timeline]

2007:

- The Bulletin of the Atomic Scientists moves the hand of the Doomsday clock forward by two minutes, making it five minutes to midnight, citing global warming and nuclear proliferation.
- IPCC's 4th assessment says glacial shrinkage, ice loss and permafrost retreat are signs that climate change is already underway. Predicts higher risk of drought, floods and more powerful storms this century, increasing the probability of hunger, homelessness and water-borne disease. Forecasts likely warming of 1.8-4.0 C (3.2-7.2 F) and higher sea levels of 18-59 centimetres (7.1-23.2 inches) by 2100.
- September: Meetings at the UN in New York and among major emitters in Washington ahead of talks in Bali, Indonesia, in December on deepening cuts after 2012, when the first commitment period under the Kyoto Protocol expires.

[Climate change could decrease rice yields 40%]

> Rising temperatures and extreme weather conditions brought on by climate change could reduce rice yields by as much as 40 percent by the end of the 21st century in much of central and southern Japan, according to research data released by the Intergovernmental Panel on Climate Change.
>
> The official public launch of the full IPCC assessment — "Climate Change 2007: Impacts, Adaptation and Vulnerability" — identifies world regions most likely to be affected by climate change and highlights crops and agriculture under threat in Asia as a whole.

[Australia's drought may cut wine vintage by half]

> Australia's drought could cut the 2008 wine grape vintage by more than half, industry groups said on Monday, cutting into a A$3 billion ($2.6 billion) a year export business and possibly forcing hundreds of winemakers out of business.
>
> The 2008 vintage is likely to fall to between 800,000 tones and 1.3 million tones, compared with a normal seasonal crop of about 1.9 million tones, according to Wine Grape Growers and Winemakers' Federation of Australia.
>
> "Some growers will not be able to recover, and some vineyards will be lost as a result of the drought," said Mark McKenzie, executive director of another industry group, Wine Grape Growers' Australia.
>
> "We think some 800 growers are in immediate financial peril, with up to 1,000 at risk over time. They are broke," McKenzie said. Australia has some 7,500 grape growers.
>
> In some regions that depend heavily on irrigation water from the Murray Darling river system, in the southeast of the country, water allocations are as low as 10-16 percent of normal allocations, the two industry groups said.

[Greenhouse Earth: Methane powered runaway global warming]

> Scientists have long sought to understand the triggers for an extraordinary warming episode called the Palaeocene-Eocene Thermal Maximum (PETM), which occurred about 10 million years after the twilight of the dinosaurs.
>
> Earth's surface warmed by at least five degrees Celsius (nine degrees Fahrenheit) in just a few hundred or a few thousand years. The Arctic Ocean was at 23 degrees Celsius (73 degrees Fahrenheit) -- about the same as a tepid bath -- before the planet eventually cooled.
>
> Richard Pancost, a researcher at Britain's University of Bristol, seized an opportunity to dig, literally, into this mystery.
>
> Excavation of a site in southeast England to set down the Channel Tunnel rail link exposed layers of sediment from a bog that had existed at the time of the PETM.

Pancost's team sifted through the dirt to measure the carbon isotope values of hopanoids, which are compounds made by bacteria.

They found that levels of these isotopes suddenly fell at the onset of the PETM, yielding a signature that can only be explained if the bugs dramatically switched to a diet of methane, a powerful, naturally-occurring greenhouse gas.

Reporting in the British journal Nature, Pancost believes that the methane had remained locked up in the soil for millions of years before warming released it into the atmosphere.

Rapeseed biofuel 'produces more greenhouse gas than oil or petrol'

A renewable energy source designed to reduce greenhouse gas emissions is contributing more to global warming than fossil fuels, a study suggests.

Measurements of emissions from the burning of biofuels derived from rapeseed and maize have been found to produce more greenhouse gas emissions than they save.

Other biofuels, especially those likely to see greater use over the next decade, performed better than fossil fuels but the study raises serious questions about some of the most commonly produced varieties.

Rapeseed and maize biodiesels were calculated to produce up to 70 per cent and 50 per cent more greenhouse gases respectively than fossil fuels. The concerns were raised over the levels of emissions of nitrous oxide, which is 296 times more powerful as a greenhouse gas than carbon dioxide. Scientists found that the use of biofuels released twice as much as nitrous oxide as previously realised.

The research team found that 3 to 5 per cent of the nitrogen in fertiliser was converted and emitted. In contrast, the figure used by the International Panel on Climate Change, which assesses the extent and impact of man-made global warming, was 2 per cent. The findings illustrated the importance, the researchers said, of ensuring that measures designed to reduce greenhouse-gas emissions are assessed thoroughly before being hailed as a solution.

The 'carbon offset' child labourers

Pumping furiously on a foot treadle in the afternoon heat, six-year-old Sarju Ram is irrigating her impoverished family's field, improving the crop and – without knowing it – helping environmentally sensitive holiday-makers assuage their guilt over long-haul flights to dream destinations.

But Sarju and her four brothers and sisters working flat out in a clump of trees that provide scant shelter from the sun illustrate a growing argument over claims that British environmentalists' efforts to curb greenhouse emissions are inadvertently fuelling an increase in child labour. Sarju's family is a beneficiary of Climate Care, an organisation that helps some of Britain's leading public figures and companies to offset their carbon dioxide emissions by funding sustainable energy projects.

Customers of British Airways are among those who have been encouraged to log on to Climate Care's website and calculate how many tonnes of greenhouse gases their flights will generate, and how much it will cost to neutralise the impact on the atmosphere. A flight to Barbados for a family of four, for example, generates 7.55 tonnes of carbon dioxide, which will cost them £56.64 to offset.

Climate Care uses the money to help persuade families such as Sarju's to give up labour-saving diesel pumps and buy human-powered treadles instead. It claims that by using the treadle, a family will save money on diesel and hire charges, earn more from increased crops and cut the carbon emissions that would have been produced by the pump.

Last week Indian experts criticised the scheme, saying it was promoting child labour and forcing poor farmers to work harder so that wealthy air travellers could enjoy exotic holidays without worrying about the environment.

Choices for fending off seas: Flee, build dikes, raise buildings

There are three primary ways for coastal areas to survive the rising seas predicted with global warming. None is perfect. None is cheap.

The first option is to retreat. Abandon the low-lying area to the oncoming sea and build farther inland. Think parts of the disappearing Louisiana coastline.

But some properties along the coasts are so valuable, tens of trillions of dollars in value in Florida alone , and involve so much infrastructure that they can't be abandoned. Think New York City or Miami.

So in those areas, artificial protection could be devised through earthen levees and dikes. Or there could be costly high-tech solutions. The Netherlands, which is mostly at or below sea level, has the world's largest flood control system with an intricate system of barriers, levees, sluices, pumps and a gigantic swinging sea gate. The cost over 40 years was about $18 billion to protect a country the size of Maryland.

The cost would be prohibitive to protect all U.S. coastal regions, and such efforts would change some wetlands into freshwater lakes.

The third option is to raise the elevation of buildings and land on the coast. This, too, is expensive and requires constant battles against the elements. Think parts of the Outer Banks. There, some houses are on stilts, and beach replenishing occurs regularly.

Long legacy of fossil fuels

At first, the modeled oceans became more acidic because of rising CO_2. But over many millennia, the researchers found, oceans reached a different final steady state compared with preindustrial times. This new steady state had higher atmospheric CO_2 levels than before fossil fuel burning, and the oceans were more alkaline and had higher levels of dissolved inorganic carbon (DIC).

A feedback mechanism causes more carbonate to dissolve in seawater, pushing even more carbon back into the atmosphere. Depending on how much CO2 humans produce in coming centuries, DIC and alkalinity could increase by 50% over preindustrial levels and atmospheric carbon by 100%.

"The system converges to a new equilibrium," the authors write. This means that the earth won't be able to recover completely from recent industrial carbon emissions, as it did in the past when CO2 levels were high. Past high levels of atmospheric carbon have been attributed to changes in earth's orbit, which occur about every 100,000 years and trigger ice ages. According to Tyrrell and colleagues, should business-as-usual CO2 emissions continue, the planet's next ice age may not come to pass for at least a half million years.

Ice withdrawal 'shatters record'

The National Snow and Ice Data Center (NSIDC) said the minimum extent of 4.13 million sq km (1.59 million sq miles) was reached on 16 September.

The figure shatters all previous satellite surveys, including the previous record low of 5.32 million sq km measured in 2005.

Inuit leaders protest dumping of waste in Arctic waters

Inuit leaders are protesting against plans that would change shipping rules and allow the navy to dump garbage and raw sewage into Arctic waters.

They have written to National Defence Minister Peter Mackay to seek clarification on the issue.

"We call on the Canadian navy, and other ships, to exercise restraint in changing their practices in this regard," said Mary Simon, resident of Inuit Tapiriit Kanatami. "It's clear the navy is reacting to changes in the Canadian Shipping Act. There may be ways to comply with the regulations without causing undue harm to the environment."

The new rules, expected to go into effect this fall, would allow warships to jettison food wastes and sewage overboard if they are at least 22 kilometres offshore.

The changes came after ship captains worried that keeping waste food aboard would turn the vessels into smelly garbage scows, especially in light of rising temperatures in the region.

Russia says tests back claim to Arctic ridge

Russia yesterday intensified the international scramble for control of the Arctic as scientists said that samples from a vast mountain range under the ocean show that it is part of Russia's continental shelf.

The natural resources ministry said that more geological tests would be done on the samples gathered by a Russian research ship earlier this year, but early results showed that the 1,240-mile Lomonosov ridge is part of Russia.

"Results of an analysis of the Earth's crust show that the structure of the underwater Lomonosov mountain chain is similar to the world's other continental shelves, and the ridge is therefore part of Russia's land mass," the ministry said.

Arctic seabed 'belongs to Russia'

Moscow has repeatedly argued that the Lomonosov Ridge is part of its land mass - and now the Natural Resources Ministry believes it has the proof....

....Marine research official Viktor Posyolov told Russia's Tass news agency the claim could extend Russia's seabed by 1.2m sq km (463,323 sq miles).

He said the territory could potentially yield 10,000 billion tonnes of conventional fuel.

In a further sign of its intent, the Kremlin announced that four strategic bombers were to make training flights over the Arctic and the Atlantic Ocean.

Fight for the Top of the World

The Arctic has never been immune from politics; during the Cold War, U.S. and Soviet submarines navigated its frigid waters. But now that global warming has rendered the Arctic more accessible than ever — and yet at the same time more fragile — a new frenzy has broken out for control of the trade routes at the top of the world and the riches that nations hope and believe may lie beneath the ice. Just as 150 years ago, when Russia and Britain fought for control of central Asia, it is tempting to think that — not on the steppe or dusty mountains but in the icy wastes of the frozen north — a new Great Game is afoot.

UK has plutonium for 17,000 bombs

The UK has built up a stockpile of 100 tonnes of plutonium - enough to make 17,000 nuclear bombs, according to the country's national academy of science.

The Royal Society says the plutonium mainly comes from reprocessed spent uranium fuel from nuclear power plants.
The society warns that it could be made into "a crude nuclear bomb" by a terror group, and is calling for a strategy for its long-term use or disposal.

The government said stocks were protected against the risk of attack.

The society says it first highlighted the problem nine years ago. And it warns that nothing has been done and that the size of the UK plutonium stockpile has doubled in that time.

180,000 private contractors flood Iraq

The United States has assembled an imposing industrial army in Iraq larger than its uniformed fighting force and responsible for a such a broad swath of responsibilities the military might not be able to operate without its private-sector partners.

More than 180,000 Americans, Iraqis, and nationals from other countries work under a slew of federal contracts to provide security, gather intelligence, build roads, forge a financial system, and transport needed supplies in a country the size of California.

That figure contrasts with the 163,100 U.S. military personnel, according to U.S. Central Command in Tampa, Fla., the organization responsible for military operations in the Middle East. The Pentagon puts the military figure at 169,000. There are another 12,400 coalition forces in Iraq.

But it has its dangers. Employees for Blackwater USA were involved in a weekend shooting that left 11 Iraqis dead.

Making a killing: how private armies became a $120bn global industry

In Nigeria, corporate commandos exchange fire with local rebels attacking an oil platform. In Afghanistan, private bodyguards help to foil yet another assassination attempt on President Hamid Karzai. In Colombia, a contracted pilot comes under fire from guerrillas while spraying coca fields with pesticides. On the border between Iraq and Iran, privately owned Apache helicopters deliver US special forces to a covert operation.

This is a snapshot of a working day in the burgeoning world of private military companies, arguably the fastest-growing industry in the global economy. The sector is now worth up to $120bn annually with operations in at least 50 countries, according to Peter Singer, a security analyst with the Brookings Institution in Washington.

"The rate of growth in the security industry has been phenomenal," says Deborah Avant, a professor of political science at UCLA. The single largest spur to this boom is the conflict in Iraq.

The workings of this industry have come under intense scrutiny this week in the angry aftermath of the killing of Iraqi civilians by the US-owned Blackwater corporation in Baghdad. The Iraqi government has demanded the North Carolina-based company is withdrawn. But with Blackwater responsible for the protection of hundreds of senior US and Iraqi officials, from the US ambassador to visiting congressional delegations, there is certainty in diplomatic and military circles that this will not happen.

[Missteps in the Bunker]

> The airmen attached the gray missiles to the plane's wings, six on each side. After eyeballing the missiles on the right side, a flight officer signed a manifest that listed a dozen unarmed AGM-129 missiles. The officer did not notice that the six on the left contained nuclear warheads, each with the destructive power of up to 10 Hiroshima bombs.
>
> That detail would escape notice for an astounding 36 hours, during which the missiles were flown across the country to a Louisiana air base that had no idea nuclear warheads were coming. It was the first known flight by a nuclear-armed bomber over U.S. airspace, without special high-level authorization, in nearly 40 years.
>
> The episode, serious enough to trigger a rare "Bent Spear" nuclear incident report that raced through the chain of command to Defense Secretary Robert M. Gates and President Bush, provoked new questions inside and outside the Pentagon about the adequacy of U.S. nuclear weapons safeguards while the military's attention and resources are devoted to wars in Iraq and Afghanistan.
>
> Three weeks after word of the incident leaked to the public, new details obtained by The Washington Post point to security failures at multiple levels in North Dakota and Louisiana, according to interviews with current and former U.S. officials briefed on the initial results of an Air Force investigation of the incident.
>
> The warheads were attached to the plane in Minot without special guard for more than 15 hours, and they remained on the plane in Louisiana for nearly nine hours more before being discovered. In total, the warheads slipped from the Air Force's nuclear safety net for more than a day without anyone's knowledge.

[Collecting of Details on Travelers Documented]

> The U.S. government is collecting electronic records on the travel habits of millions of Americans who fly, drive or take cruises abroad, retaining data on the persons with whom they travel or plan to stay, the personal items they carry during their journeys, and even the books that travelers have carried, according to documents obtained by a group of civil liberties advocates and statements by government officials.
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> The personal travel records are meant to be stored for as long as 15 years, as part of the Department of Homeland Security's effort to assess the security threat posed by all travelers entering the country. Officials say the records, which are analyzed by the department's Automated Targeting System, help border officials distinguish potential terrorists from innocent people entering the country.
>
> But new details about the information being retained suggest that the government is monitoring the personal habits of travelers more closely than it has previously acknowledged. The details were learned when a group of activists requested copies of official records on their own travel. Those records included a description of a book on marijuana that one of them carried and small flashlights bearing the symbol of a marijuana leaf.

> The Automated Targeting System has been used to screen passengers since the mid-1990s, but the collection of data for it has been greatly expanded and automated since 2002, according to former DHS officials.
>
> Officials yesterday defended the retention of highly personal data on travelers not involved in or linked to any violations of the law. But civil liberties advocates have alleged that the type of information preserved by the department raises alarms about the government's ability to intrude into the lives of ordinary people. The millions of travelers whose records are kept by the government are generally unaware of what their records say, and the government has not created an effective mechanism for reviewing the data and correcting any errors, activists said.

[Bush as Saddam magazine cover stirs controversy]

> The cover article on the latest issue of Maclean's magazine, titled "How Bush Became the New Saddam," is stirring up controversy south of the border....
>
> ...."What I realized after I got there (the second time) was that the Americans had really switched sides and that they were carrying out the old Baathist strategy in Iraq and that's one of the reasons why the insurgents and a lot of Sunni Iraqis had switched sides."
>
> Graham said he discovered that the surge strategy was essentially the Saddam strategy -- which was to contain the Kurds, confront the Shia using tribal Sunnis, and to confront Iran.