

The Energy and Environment Round-Up: October 31st 2007

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Tony Blair, visiting the Alberta oil patch, says that Canada is destined to become an economic and political powerhouse thanks to our energy reserves. Stephen Harper has said much the same - that we're an energy superpower and therefore need not concern ourselves with potential shortages as other countries must. To this writer, such statements represent a staggering degree of hubris, and a fundamental lack of understanding of the nature of political power on the international stage.

This Round-Up covers the on-going Alberta royalty debate, which now appears to have BC thinking about increasing gas royalties as well, following a global trend. While BC contemplates carbon taxes, Jeff Rubin at CIBC steps into the ethanol debate and attention turns to nuclear waste disposal.

Fresh water is fast becoming a huge issue on the international stage - from falling water levels in the Great Lakes to drought in the US and Australia to the world's most dangerous dam in Iraq. The latter highlights the huge infrastructure problems facing many countries, and if wealthy countries cannot maintain their infrastructure, what chance to unstable and impoverished places like Iraq have?

Mud, sweat and tears

You've only got to stroll down Hardin Street to the main drag, then hang a left and walk a couple more short blocks, to see what Fort McMurray is about. It wouldn't be the whole story, but you would catch the drift. You'd pass the Boomtown Casino, strip malls, and a club called Cowboys proudly advertising "naughty schoolgirl nights". Then the Royal Canadian Mounted Police station, the municipal offices, the Oil Sands Hotel, and Diggers bar, with its advertisement for exotic dancers. You would be passed by Humvees and countless pick-up trucks, each more souped up than the next, many covered in dried mud, many carrying further 4x4s - in winter, snowmobiles; in summer, all-terrain vehicles on which to go chasing through the bush, which is visible from the main street. And if the wind is from the north-west, you can smell oil on the air: heavy, slightly sour, unmistakable. Round here, they call it the smell of money.

As the Middle East has become more unstable, as Iraq has boiled into chaos, other, more unexpected places have flourished, and none more so than Fort McMurray. Five hours' drive north of Edmonton, in Alberta, it has always been a frontier town, and even before the first white explorers came fur-trapping, the Indians knew that this place sat on oil they used it to waterproof their canoes.

Canada will become one of the most powerful nations: Tony Blair

Canada is poised to become an economic and political powerhouse in the world, former British prime minister Tony Blair said Friday.

In a speech to an oil and gas industry crowd in Calgary, Blair forecast that Canada's energy reserves and, what he called its "modern spirit," make for a bright future.

Former British Prime Minister Tony Blair on his last day in office, June 27, 2007. "I often say to people, Canada will become one of the most powerful nations in the world."

Tories line up behind besieged rookie premier

Party members seem to genuinely like their leader and appear willing to follow him even if he is taking them into unchartered waters where they are under attack, not just from the opposition parties, but from their longtime ally, the energy industry.

That has more than a few party members anxious, but they don't seem particularly glum about it.

Call it nervous anticipation or perhaps optimistic fatalism. They agree Stelmach had to do something about royalties with oil approaching \$100 a barrel, and they're willing to weather the storm with him, even if they realize after 36 years in power they might be heading towards their toughest election fight yet.

Investors unfazed by Stelmach's royalty raise

Investors have spoken, and they do not care.

Ed Stelmach, the Premier of Alberta, followed through on Thursday on recommendations to raise royalty rates in the oilpatch, and in the process he has raised the ire of many companies that operate in the sector. Some observers, who bought into the hype, say the sector is now ruined, and that stocks and income-trust units could plummet as much as 20%.

The reality? Amid hand-wringing and protests, the sector held up remarkably well yesterday.

What the patch really fears

This is what disaster looks like for Alberta's energy producers: Natural gas prices at \$4 (U.S.) for 1,000 cubic feet and oil at less than \$45 a barrel.

Amid concerns higher royalties in the province will slow down capital spending, the real issue is the price of the commodities, according to investors....

....The province's energy sector is focused on natural gas drilling, despite the attention

on the oil sands. Natural gas accounts for more than half of the royalties paid to the province and consultancy Ziff

Energy said in a report this month that Western Canadian gas producers need a price of \$6 for 1,000 cubic feet just to break even.

The price needs to be almost \$8 to make a decent profit, Ziff said. The current benchmark price on the New York Mercantile Exchange is about \$7.20, though the price at the key trading hub in Alberta has averaged less than \$6 (Canadian) this month, which is the reason the gas sector is struggling.

Natural gas terminal near Quebec City approved

The Quebec government has given its approval for the construction of a controversial liquefied natural gas terminal near Quebec City known as the Rabaska project, the second LNG terminal to be given the green light by the province in four months.

Opponents, including environmental and community groups, are organizing a protest march for Sunday at the National Assembly and will take legal action in an attempt to force the government to reverse its decision.

Rabaska president Glenn Kelly said the project has strong community support. He added that construction will begin next year and the terminal will be in operation at the end of 2011. The next major hurdle, he said, will be to ensure a steady flow of liquefied natural gas from foreign suppliers.

Alberta royalty grab stuns oil industry

Alberta Premier Ed Stelmach infuriated the province's oil industry Thursday with surprisingly aggressive plans to take more money from the energy business, but the increases are less than a government-commissioned panel recommended last month.

The government said that under the new regime, money collected from the energy business could be 20 per cent higher in 2010 than forecast, potentially bringing an additional \$1.4-billion to the treasury. That figure is nearly half a billion dollars less than the expert review panel wanted.

Starting in 2009, royalty rates will be increased across the board – for example, in the oil sands, rates will start rising when the price of oil is higher than \$55 a barrel, with a new maximum of 40 per cent of a company's net revenue, up from a fixed rate of 25 per cent.

A fair share on royalties?

The Alberta Royalty Review Panel delivered its assessment of the oil and gas royalty

regime in Alberta in a report titled Our Fair Share on Sept. 18. Since then, Albertans, Canadians and people from around the world have garnered an insider's view to the tensions existing in the strongest economy within Canada.

The question of what is good for oil and gas companies has been drawn into question with what is good for the people of Alberta, owners of the resource. The question of what is good for today is weighed against what is good for the future of the province. Rates of return and the mobility of capital have been challenged against the perception of a lack of better opportunities elsewhere.

Royalties 'Blatant deceit'

Ed Stelmach's new royalty regime is a "blatant deceit" that deprives Albertans of a fair share, a member of his royalty panel charged Friday.

The premier insisted his plan is balanced and will go ahead as planned.

The panelist, who asked not to be identified, said Stelmach's royalty strategy is a misleading response to what the royalty report and economic data suggest are best for Albertans.

"It's a political document that's not really grounded in too much economic reality," the panelist said.

"It's a lot of dread. ... Just seeing it unfold is like a Greek tragedy," the panel member added, saying the government's rejection of so many recommendations was a slap in the face.

New rates too low - Oilsands take not fair: expert

An independent energy economist who worked closely with the province and royalty review panel said Saturday the Stelmach government's new royalties policy fails miserably on the oilsands -- the province's top energy play -- and won't deliver nearly enough economic rent to Albertans.

The analysis from world-renowned oil and gas economist Pedro van Meurs came a day after a member of the government-appointed royalty panel argued Premier Ed Stelmach's new strategy is "a blatant deceit" of Albertans and doesn't offer them a fair share of energy development.

"I believe that the proposed terms are highly detrimental to Alberta. They provide for only a minimal increase in revenues, compared to what was already a very modest proposal by the panel. The new terms will not give Albertans a fair share of the oilsands revenues," van Meurs said in an analysis provided to the Herald.

Stelmach bows to oil-industry pressure

Mr. Stelmach's move on royalties is one of the most important economic decisions in Canada this year, with reverberations to be felt countrywide, and if his television address goes over well in the coming days, a snap election could be likely, though the Premier gave no hints on that possibility.

"Ed Stelmach had an opportunity to inspire Albertans and he failed," said Kevin Taft, leader of the Opposition Alberta Liberals.

The speech had "no new vision," according to Keith Brownsey, a political scientist at Mount Royal College in Calgary, adding that it was a reworked version of things Mr. Stelmach has said before.

"It was just profoundly vague," Mr. Brownsey said.

Is Alberta out of step with the world?

You would think from the anguished cries of the oil companies that the Alberta government's decision to increase royalties was a bolt from the blue.

Far from it.

In the past five years, as the price of oil has risen from about \$20 (U.S.) a barrel to its current level of about \$85, a succession of governments around the world has moved to claim a greater share of energy wealth for their citizens.

Some have been eye-catching grabs, such as the one made by Hugo Chavez of Venezuela, whose government took majority control of all major oil projects earlier this year. Others, lacking a showy front man like Mr. Chavez, have quietly boosted the public share.

The long list of countries stretches from Britain to China and includes Russia, Angola and Ecuador. State legislators in Alaska are currently debating a tax increase on oil company profits that Governor Sarah Palin calls "Alaska's Clear and Equitable Share." The government of Nigeria is thinking of revisiting the contracts it signed with international oil companies.

This is clearly a global trend. Did the companies operating in the Alberta oil sands really think they would be spared?

Big Oil's big ugly predictions fall flat as Ed finds kindred spirit in Blair

Even former British prime minister Tony Blair tells Ed to hang in there. Blair was in Calgary yesterday to speak at a \$400-a-plate luncheon, the convention centre hall filled with many of the city's well-heeled and well-connected.

Blair's government doubled the North Sea oil tax two years ago at a time of raising prices and rising profits, and went through the same grief Ed is now encountering.

"We spent a few minutes talking about it and he did mention it was one of the most difficult periods of time in his leadership because of the polarization: Not enough, too much, we're going to go, pretty well the same kind of public debate we've experienced. He did say it was one of the toughest decisions he made," says the premier.

And what was Blair's advice?

"Stay the course," says Steady Eddie.

Yes, in the United Kingdom at the time of the tax hike, the oil business -- who would have thunk it -- reacted with quotations such as this one: "At a single stroke, the treasury has rewritten the industry's future. It will severely undermine business confidence." Sound familiar?

Of course, life went on.

Don't blame Stelmach

To be blunt, we're living fatter than hogs. No provincial government spends more for every one of its citizens than Alberta, a galumphing \$9,526, or about \$2,000 more than Manitoba or Saskatchewan. And having paid off the debt, we smugly even figure we deserve it.

That makes us hard to govern well. No leader will be popular who keeps a tight rein on spending: Nor is the road to election victory paved with promises to beef up the Heritage Fund, so there can be an Alberta advantage from these irreplaceable resources left for our grandchildren, as well.

B.C. needs to review natural gas royalties

The question is, are the people of B.C., through our government, getting -- and will we get -- paid what it's worth for a resource that can never be renewed? As I've argued previously, the outcome of the Alberta review suggests we very possibly are not.

Royalties are not a tax -- they're the sale of a public asset (energy in the ground) to a company that will transform it into something that can be consumed. Our asset is clearly appreciating in value. Thus, market principles suggest, so should its price.

Yet royalties are far too variable from place to place, far too complex in structure, and far too tailored to individual geographies for any simple comparison to stand. Some gas fields cost more to tap into than others. Some -- and this is a deal-breaker in parts of the world -- are so far from markets they're uneconomical without special breaks and/or prices. Some jurisdictions try to encourage faster or slower exploitation or, in B.C.'s case, year-round exploration instead of only in winter when access is cheaper. And costs can be driven by factors like the need to mitigate environmental damage.

A key factor Alberta looked at -- and B.C. will have to consider, as well -- is how its royalty structure stacks up against the rest of the world's.

Ethanol drive fuels inflation, fails to generate benefits: CIBC's Rubin

The U.S. federal and state governments provide massive subsidies to ethanol producers to expand capacity and to corn farmers to supply the crops to make the fuel. This ever-increasing diversion of corn away from livestock feed and human consumption is putting unrelenting pressure on food prices, with a 60 per cent rise in corn prices in the past two years, Mr. Rubin observed Monday.

"Soaring corn prices not only pass directly into animal feed costs and corn-based food prices like tortillas, but they are spilling over to other grain prices as farmers scramble to expand corn production at the expense of other crops," he said.

"Grain prices are the strongest they have been in memory while global inventories continue to shrink to record lows."

The Bush administration aims to raise ethanol production from one billion gallons a year in 2000 to 35 billion gallons a year by 2017, and subsidies totalled \$8-billion (U.S.) last year. But Mr. Rubin argues that corn-based ethanol production "is simply not economically efficient — not even with \$100 per barrel oil."

Steep decline in oil production brings risk of war and unrest, says new study

Mr Fell said that the world had to move quickly towards the massive deployment of renewable energy and to a dramatic increase in energy efficiency, both as a way to combat climate change and to ensure that the lights stayed on. "If we did all this we may not have an energy crisis."....

....The German policy, which guarantees above-market payments to producers of renewable power, is being adopted in many countries - but not Britain, where renewables generate about 4% of the country's electricity and 2% of its overall energy needs.

Nuclear waste top concern for Canada, experts say

As Canada moves towards storing nuclear waste underground, experts at an international climate conference in Montreal are warning the industry to begin considering the security issues at stake.

Nuclear energy is being trumpeted by the industry as an important source of carbon-free energy but before production of nuclear energy ramps up, long-term solutions to the waste must be found, experts warn.

Federal Natural Resources Minister Gary Lunn announced last June that the government had agreed in principle to exploring the underground option.

That has many environmentalists uneasy and others concerned about the risks

Iraqi dam seen in danger of deadly collapse - Failure could unleash a trillion-gallon wave of water, killing up to 500,000

The largest dam in Iraq is in serious danger of an imminent collapse that could unleash a trillion-gallon wave of water, possibly killing thousands of people and flooding two of the largest cities in the country, according to new assessments by the U.S. Army Corps of Engineers and other U.S. officials.

Even in a country gripped by daily bloodshed, the possibility of a catastrophic failure of the Mosul Dam has alarmed American officials, who have concluded that it could lead to as many as 500,000 civilian deaths by drowning Mosul under 65 feet of water and parts of Baghdad under 15 feet, said Abdulkhalik Thanoon Ayoub, the dam manager. "The Mosul dam is judged to have an unacceptable annual failure probability," in the dry wording of an Army Corps of Engineers draft report....

...."In terms of internal erosion potential of the foundation, Mosul Dam is the most dangerous dam in the world," the Army Corps concluded in September 2006, according to the report to be released Tuesday. "If a small problem [at] Mosul Dam occurs, failure is likely."

Rising fear of energy crisis this winter

Britain faces the prospect of power shortages and soaring prices this winter after the National Grid warned of a shortfall in electricity-generating capacity yesterday. The alert coincides with a surge in gas prices, which are now 40% higher than in continental Europe, and the confirmation that a vital import plant in South Wales will not be operational this winter.

An advisory council to British Columbia Premier Gordon Campbell has recommended that the Canadian province adopt feed-in tariffs for new sources of renewable energy.

The recommendation by the Premier's Technology Council is contained in a report on Greening BC Energy Purchasing Policies released 12 October 2007.

Policy recommendation 10.21 specifically recommends "that (the) government support the development of appropriate feed-in tariffs that decline over time to assist the commercialisation of emerging, renewable energy sources and their associated technologies."

The Premier's Technology Council, an independent advisory body, reports directly to Premier Campbell. The Council is not affiliated with BC Hydro, the province's electric utility.

Brave B.C. talks true carbon tax

Stephen Harper and Stéphane Dion won't do it, and most Canadian politicians won't even say it out loud.

But in British Columbia, Finance Minister Carole Taylor is merrily pursuing a carbon tax, eyeing a plan that could see the province levy substantial fees on economic choices that spew greenhouse gases, but that would slash other kinds of taxes, including income taxes.

That is the precise policy that market-minded environmentalists and environment-minded economists have long urged, since only pain in the pocketbook - not feel-good ad campaigns, not loophole-riddled regulations - can force the changes in consumer and business behaviour needed to curb climate change. The economic logic of a carbon tax is impeccable; the politics, however, have been unpalatable.

Abundance of freshwater 'a myth'

The "myth" of freshwater abundance in this country should be abandoned by Canadians and their governments, warns a report from an expert panel recommending radical action to protect the nation's drinking water.

The newly formed Gordon Water Group, which describes itself as an organization of scientists, lawyers, policy experts and former senior government policy advisers led by the Sierra Club of Canada, is releasing the 55-page call to action Friday.

The threats to Canada's drinking water are many, it says. Climate change, the Alberta oil-sands projects, hydroelectric dams, using too much water and flushing untreated waste into lakes and rivers are all cited as concerns.

"The failure to address these problems shows the need for radical improvements in the governance of our freshwater legacy," the report states. "Despite the persistent Canadian myth that our freshwater resources are abundant, we must now face the very real potential that regions throughout Canada, especially in the Western provinces, may experience severe water scarcity. Today, the stakes of mismanagement and inaction are much higher than before."

As Great Lakes shrink, cargo carriers worry

From his office at the port here, Jonathan Daniels stared at a watermark etched on the rocks that hug one of the commercial piers - a thick, dark line several inches above the surface of Lake Ontario - and wondered how much lower the water would dip.

"What we need is some rain," said Daniels, director of the Port of Oswego Authority, one of a dozen public port agencies on the U.S. side of the Great Lakes. "The more we lose

water, the less cargo the ships that travel in the Great Lakes can carry, and each time that happens, shipping companies lose money," he said. "Ultimately, it's people like you and I who are going to pay the price."

Water levels in the Great Lakes are falling; Lake Ontario, for example, is about 7 inches, or 18 centimeters, below where it was a year ago. And for every inch of water the lakes lose, the ships that ferry bulk materials across them must lighten their loads by 270 tons or risk running aground, according to the Lake Carriers' Association, a trade group for U.S.-flag cargo companies.

As a result, more ships are needed, adding millions of dollars to shipping companies' operating costs, experts in maritime commerce estimate.

Many states seen facing water shortages

An epic drought in Georgia threatens the water supply for millions. Florida doesn't have nearly enough water for its expected population boom. The Great Lakes are shrinking. Upstate New York's reservoirs have dropped to record lows. And in the West, the Sierra Nevada snowpack is melting faster each year. Across America, the picture is critically clear — the nation's freshwater supplies can no longer quench its thirst.

The government projects that at least 36 states will face water shortages within five years because of a combination of rising temperatures, drought, population growth, urban sprawl, waste and excess.

The Big Dry - Prolonged drought threatens Australia's people, wildlife, and economy

Step off a plane almost anywhere in Australia, and one of the first things you'll notice is water—or rather, the absence of it. In every public bathroom in Melbourne, signs remind people to be sparing with the faucet. In Brisbane, short showers are required by law. And throughout southern Australia, everyone using a toilet is supposed to choose the alternate-flush option.

Australia is locked in a drought of drastic proportions. In recent years, rivers have reached record lows. Temperatures have spiked to record highs. Cities are running out of water. Wildfires are burning. Ecosystems are suffering. And climate models are projecting more of the same—and worse—for many years to come.

The Australian continent has experienced dry spells since ancient times, but the length and severity of the current crisis have surprised even the most weathered climate experts. Australia's population has grown rapidly in recent decades, and there just isn't enough water to go around anymore.

New CO2 evidence means climate change predictions are 'too optimistic'

Carbon dioxide levels in the atmosphere are increasing much faster and will be harder to control than scientists have predicted, a study has found.

An international team of researchers has found that, since 2000, the rate at which CO2 has been pumped into the atmosphere is 35 per cent greater than most climate change models have allowed for.

The conclusions have serious implications for forecasts of how much and how quickly the world's temperature will rise and mean that global warming will be harder and more expensive to control than feared. The results also mean that international efforts to bring CO2 emissions under control will need to be more far-reaching.

Professor Nicholas Owens, of the British Antarctic Survey (BAS), said that the findings were so worrying that they made previous widely accepted forecasts of climate change seem unduly optimistic.

Oceans Are Soaking Up Less CO2, Research Shows

The world's oceans appear to be soaking up less carbon dioxide, new environmental research has shown, a development that could speed up global warming.

A 10-year study by researchers from the University of East Anglia has shown that the uptake of CO2 by the North Atlantic ocean halved between the mid-1990s and 2002-2005. "Such large changes are a tremendous surprise," said Dr Ute Schuster, who will publish the findings with professor Andrew Watson in the Journal of Geophysical Research next month.

"We expected that the uptake would change only slowly because of the ocean's great mass."

Arctic Alaska villages caught in slow-motion disaster onslaught

The cost of relocating villages that face extinction in the next decade or so -- sooner if the wrong storm hits the wrong place at the wrong time -- is staggering. Even by Alaska standards.

Meanwhile, millions more are needed to protect people and facilities threatened by catastrophic erosion until they move.

Where will all the money come from?

"That's the million-dollar question," said Sally Russell Cox, a state planner who is involved in the Newtok relocation.

It's closer to a billion-dollar question, and it's getting a lot of attention at the federal, state and local levels.

In Lovelock's view, the scale of the catastrophe that awaits us will soon become obvious. By 2020, droughts and other extreme weather will be commonplace. By 2040, the Sahara will be moving into Europe, and Berlin will be as hot as Baghdad. Atlanta will end up a kudzu jungle. Phoenix will become uninhabitable, as will parts of Beijing (desert), Miami (rising seas) and London (floods). Food shortages will drive millions of people north, raising political tensions.

"The Chinese have nowhere to go but up into Siberia," Lovelock says. "How will the Russians feel about that? I fear that war between Russia and China is probably inevitable." With hardship and mass migrations will come epidemics, which are likely to kill millions. By 2100, Lovelock believes, the Earth's population will be culled from today's 6.6 billion to as few as 500 million, with most of the survivors living in the far latitudes -- Canada, Iceland, Scandinavia, the Arctic Basin.

French Skepticism of GMO Crops Signals Policy Shift

France is the latest EU country reluctant to use genetically-modified crops with President Sarkozy suspending their cultivation. The issue remains a subject of heated debate in the EU's largest agricultural producer.

France lags behind its European neighbours on environmental issues such as recycling and using renewable sources of energy. But this week environmentalists were full of praise for French President Nicolas Sarkozy for saying no GMO crops would be planted in France until the government had received the results of an evaluation by a new authority on GMOs set to be launched later this year.

GM: The Secret Files

Ministers are secretly easing the way for GM crops in Britain, while professing to be impartial on the technology, startling internal documents reveal.

The documents, obtained through the Freedom of Information Act, show that the Government colluded with a biotech company in setting conditions for testing GM potatoes, and gives tens of millions of pounds a year to boost research into modified crops and foods.

The information on funding proved extraordinarily difficult to get, requiring three months of investigation by an environmental pressure group, a series of parliamentary questions, and three applications for the information.

Friends of the Earth finally obtained still partial information last week which shows that the Government provides at least £50m a year for research into agricultural biotechnology, largely GM crops and food. This generosity contrasts with the £1.6m given last year for research into organic agriculture, in spite of repeated promises to promote environmentally friendly, "sustainable" farming.

Transgenic crops may hurt aquatic ecosystems

The U.S EPA declared in 1996 that transgenic Bt corn is unlikely to harm aquatic organisms. The corn contains a gene from the bacterium Bacillus thuringiensis (Bt), which makes a toxin that kills pests, and the agency had tested the corn's impact on water fleas — organisms not closely related to the insects that Bt targets. Now, a new study published October 9 in Proceedings of the National Academy of Sciences U.S.A. shows that the Bt toxin enters streams adjacent to cornfields and impedes the growth of caddis flies—a group of aquatic insects very closely related to the crop's pests. The study sheds new light on the potential environmental impacts of transgenic crops.

Scott Ritter, Former UN weapons inspector: On The Eve Of Destruction

Don't worry, the White House is telling us. The world's most powerful leader was simply making a rhetorical point. At a White House press conference last week, just in case you haven't heard, President Bush informed the American people that he had told world leaders "if you're interested in avoiding World War III, it seems like you ought to be interested in preventing [Iran] from having the knowledge necessary to make a nuclear weapon." World War III. That is certainly some rhetorical point, especially coming from the man singularly most capable of making such an event reality.

Pundits have raised their eyebrows and comics are busy writing jokes, but the president's reference to Armageddon, no matter how cavalierly uttered and subsequently brushed away, suggests an alarming context. Some might note that the comment was simply an offhand response to a reporter's question, the kind of free-thinking scenario that baffles Bush so. In a way, this makes what the president said even more disturbing, since we now have an insight into the vision, and related terminology, which hovers just below the horizon in the brain of George W. Bush.

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