ODAC Newsletter, Friday 21 December

Posted by Doug Low on December 23, 2007 - 3:43am in The Oil Drum: Europe
Topic: Miscellaneous

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This is the last *ODAC News* that will be posted on TOD:E. The newsletter will have a new format (and editor) in the New Year. Send an e-mail to odac AT btconnect.com to receive it.

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1a/ Daddy, will the lights be on at Christmas? (The Oil Drum: Europe [Euan Mearns], Thu 20 Dec)

http://europe.theoildrum.com/node/3401#more

Comment: One of Euan Mearns' comments is that up to 2020, LNG import (regasification) capacity will be about double the LNG exporting capacity. However, various reports have come out over the last couple of years hinting at tight gas supplies now, and getting tighter moving forward. A good summary was given by Wood Mackenzie in this video, Access to Gas, the LNG Industry's Big Challenge, http://www.woodmacresearch.com/cgi-bin/wmprod/portal/energy/highlightsDe... (13.5 min), which forecasts likely shortages of LNG between now and 2010, then things go downhill. The article Euan links to below by SamuM is excellent, and will be posted on The Oil Drum:Europe as a separate article later.

> OECD Europe gas imports may grow by 295 BCM per annum by 2020. In the same time period, global LNG production is set to grow by 350 BCM per annum. So we Europeans should be OK, so long as the USA, Japan, China, South Korea, India and Taiwan are not planning to expand their LNG imports as well.
>
> This is a follow up to the post I had on European Gas last week. In the comments nrgyman2000 posted his forecast for Norwegian gas production that was somewhat more pessimistic than the assumptions I had made. The UK department of BERR also sent me some more reports with interesting data on Global LNG liquefaction and regasification capacity. SamuM posted a lengthy comment on Russian gas with 10 charts that is recommended reading [well-worth a read, http://europe.theoildrum.com/node/3283#comment-276829. ODAC News has posted several articles on the problems of Russian gas production, and exports to Europe, over the last two years. This is an excellent summary.]. This post aims to pull this new information together and concludes that European gas and energy security is in a perilous situation...

1b/ LNG demand to outpace supply by 2 times until '15 on plant delays (Gulf Times, Thu 20 Dec)

http://www.gulf-times.com/site/topics/article.asp?cu_no=2&item_no=191023...

Royal Dutch Shell, BG Group and Total are among companies that may gain from liquefied natural gas sales as prices of the cleaner-burning fuel climb because of rising demand, a report said.

Demand will outpace supply by more than two times until 2015 because of delayed construction of processing plants, Bernstein Energy said in a report yesterday.

Shell, Total, Exxon Mobil Corp and BP “hold the greatest equity stakes in gas supply and LNG production developments,” analysts Neil McMahon, Ben Dell and Oswald Clint wrote in the report.

Prices of LNG have tripled in the last five years to a record $10 a million British thermal units because of a shortage of equipment and contractors and surging costs.

Just four projects, including Hunt Oil Co-led venture in Peru and Chevron Corp-led plant in Angola, have been approved since the start of 2006...

1c/ Part 1: How Long Will Siberia's Gas Last? The Last Major Field Goes On line (Der Spiegel, Tue 18 Dec)

http://www.spiegel.de/international/world/0,1518,524140,00.html

1d/ Part 2: The Limits of Production (Der Spiegel, Tue 18 Dec)

http://www.spiegel.de/international/world/0,1518,524140,00.html

1e/ Russia seals Caspian gas pipeline deal (Financial Times, Thu 20 Dec)

http://www.ft.com/cms/s/0/674201a6-aefe-11dc-880f-0000779fd2ac.html

Russia, Turkmenistan and Kazakhstan finalised a landmark agreement on Thursday to build a pipeline to transport gas to Russia, tightening Moscow’s control over Central Asian gas exports.

The deal comes at a time of intense competition for the region’s rich energy resources. Dubbed Pricaspiysky, the new pipeline will skirt the east coast of the Caspian Sea carrying 20bn cubic metres a year of Turkmen and Kazakh gas north to Russia’s Saratov region.

... Julia Nanay, of PFC Energy, said, “The agreement on this pipeline marks a strengthening of energy relations between Central Asia and Russia and fulfils one of Putin’s key policy goals of tying large supplies of gas from Central Asia into the Russian system.”

Gazprom, the statecontrolled Russian gas company, needs Central Asian gas to compensate for a fall in production from its Siberian fields, a decline that threatens to undermine its $37bn (€25.5bn, £18.4bn) a year European gas export business.

Mr Putin said the Pricaspiysky pipeline would be “a serious investment by our countries in strengthening energy security, not just in Eurasia but more widely, bearing in mind our main consumers in west Europe”.

Separately, Russia, Kazakhstan, Turkmenistan and Uzbekistan plan to modernise and expand a Soviet-era pipeline, currently the only large gas export route out of landlocked

Central Asia.

Viktor Khristenko, the Russian energy minister, said the Pricaspiysky pipeline would be built by late 2010. Each republic would take responsibility for financing construction of the pipeline on their territory, he said.

Mr Putin and Mr Nazarbayev earlier spoke by telephone with Gurbanguly Berdymukhammedov, the Turkmen president, who came into office a year ago after the death of Sapurmurat Niyazov.

Mr Berdymukhammedov has begun construction of a gas export pipeline to China that will end Russia's stranglehold on Turkmenistan's gas export routes by the end of 2009.

He has also held frequent talks with western governments about a project to build a gas pipeline across the Caspian Sea to Azerbaijan to link up with the planned Nabucco system supplying Caspian gas to Europe. Nabucco is central to the EU's strategy to diversify gas imports away from Russia.

Finalisation of the Pricaspiysky project, first announced in May, has been postponed several times despite intense lobbying by Russian diplomats.

Meanwhile, Turkmenistan has persuaded Gazprom to accept a 30 per cent increase in gas prices, despite an earlier contract fixing the price at $100 per thousand cubic metres until 2009. The price will rise again to $150 per thousand cubic metres in the second half of next year.

Analysts said it would be difficult for prospective investors in the trans-Caspian pipeline to compete with the higher price Gazprom has agreed to pay Turkmenistan.

2/ Why China Is Rising And The United States Is Declining (Earth Policy Institute, Dec14 2006 /Tue 18 Dec 2007)

http://www.earth-policy.org/Updates/2006/Update62.htm

Comment: By Lester R. Brown. For USA, you could just as easily put UK.

I know Santa Claus is Chinese because each Christmas morning after all the gifts are unwrapped and things settle down I systematically go through the presents to see where they are made. The results are almost always the same: roughly 70 percent are from China. After some research, it seems that my one-family survey is representative of the country as a whole.

Let's start with toys. Some 80 percent of the toys sold in the United States—from Barbie dolls to video games—are made in China. Talking toys that speak English learned the language from Chinese workers. Electronic goods—from Apple's iPod to Microsoft's Xbox—are made in China. Clothing—from the latest cashmere sweaters to gym suits—is also likely to have a "Made in China" label.

... That the U.S. Christmas is made in China is a metaphor for a far deeper set of economic issues affecting the United States. Today Christmas is celebrated in both the United States and China—but for different reasons and with far different economic consequences. For the Chinese, the manufacturing bonanza means record profits, rising incomes, and, in a society where people save some 40 percent of their income, a sharp jump in savings. In the United States, Christmas shopping expenditures, headed for another record high this year, contribute to rising credit card debt and a soaring trade deficit.

Underneath the American Christmas spirit and good cheer is a debt-laden society that appears to have lost its way, marred in the quicksand of consumerism. As a society, we seem to have forgotten how to save so we can invest in a better future. Instead of leaving our children a promising economic future, we are bequeathing them the largest debt burden of any generation in history.

At the personal level, credit card debt just keeps climbing, and at the government level, we have the largest deficit in history. At the international level, we have a trade deficit that moves to a new high month after month.

It's not the fact that our Christmas is made in China, but rather the mindset that has led to it that is most disturbing. We want to consume no matter what. We want to spend now and let our children pay. It is this same mindset that introduces tax cuts while waging a costly war. Economic sacrifice is no longer part of our vocabulary. After the Japanese attack on Pearl Harbor, President Roosevelt banned the sale of private cars in order to mobilize the manufacturing capacity and engineering skills of the U.S. automobile industry to build tanks and planes. In contrast, after 9/11, President Bush urged us to go shopping.

... National policy failures such as not adequately supporting the use of renewable energy technologies have contributed to the growing U.S. trade deficit. For example, the United States should be a leading manufacturer and exporter of solar cells and wind turbines, but it has fallen behind both Europe and Japan. The solar cell, invented at Bell Labs in 1954, is an American technology. But the U.S. effort to develop solar energy was so weak and sporadic that both Germany and Japan forged ahead and developed robust solar cell manufacturing and export industries.

The situation is similar with wind. Although the modern wind industry was born in California at the beginning of the 1980s, the U.S. failure to sustain support for wind resource development allowed European countries to largely take over this industry.

Even though rising oil imports are widening our trade deficit, we consume oil with abandon, weakening the economy and undermining our political independence.

We have lost influence in world financial markets simply because of our mounting debt, much of it held by other countries. If China's leaders ever become convinced that the dollar is headed continuously downward and they decide to dump their dollar holdings, the dollar could collapse.

Beholden to other countries for oil and to finance our debt, the United States is fast losing its leadership role in the world. The question we are facing is not simply whether our Christmas is made in China, but more fundamentally whether we can restore the discipline and values that made us a great nation—a nation the world admired, respected, and emulated. This is not something that Santa Claus can deliver, not even a Chinese Santa Claus. This is something only we can do.

3a/ Coal-to-liquid project may start earlier (China Daily, Mon 17 Dec)

http://www.chinadaily.com.cn/bizchina/2007-12/17/content_6326338.htm

Comment: A lot of concern is raised about the potential for CTL to raise atmospheric carbon dioxide levels. But apart from South Africa which has been producing liquid fuel from coal for decades, and China which is progressing with a very limited CTL program due to lack of (too expensive) coal, the only country likely to have enough coal to go down this route is the USA, and even there developments will be limited.

Some of this article does not make sense. China recently announced a moratorium on new CTL projects, due to the fact that earlier this year, and beginning again early 2008, it was / will be a net coal importer. China may have very large coal reserves, but it cannot produce them fast enough, at least for the moment.

> With global oil prices now lingering near historical highs, it is likely that China's first coal-to-liquid (CTL) project will begin operation before the previously projected date of 2016, according to South Africa's Sasol, the world pioneer in commercial CTL technology. It is planning two giant projects in China.
>
> "Once we have completed our studies, we will consider shortening the period (before operations begin)," says Lean Strauss, Sasol Group general manager. "We will bring the date forward."
>
> He didn't give a new timetable, but the company's Beijing office said earlier the two projects might come online in 2013.
>
> The company and its Chinese partner China Shenhua Group are now in the second phase of feasibility studies for the two projects, one in Northwest China's Shaanxi Province and the other in the Ningxia Hui Autonomous Region.
>
> ... "China has the right conditions to become the second country in the world to develop CTL," Strauss says. Sasol commercialized CTL projects in its home country after building its first plant in 1955 and two more from the 1970s to the mid-1980s. Twenty-five percent of South African fuel is now derived from coal to power cars and airlines in the country.
>
> ... Experts say that as world oil prices approach $100 a barrel, Sasol's projects look increasingly appealing to China, where coal is abundant and about half of oil consumed is imported from overseas.
>
> ... Amid calls for China to build more strategic oil reserves to ensure energy security, Strauss believes China's coal reserves provide a significant strategic opportunity to improve both its energy security and self-sufficiency. The nation has about 1 trillion tons of explored coal reserves, ranking it third in the world.
>
> But since they were first proposed, Sasol's projects in China have been controversial due to doubts about their energy efficiency and economic viability.
>
> According to Strauss, the efficiency of coal to oil is around 40 percent with the remainder used to make other coal chemical products. The company is now researching how to improve efficiency.
>
> Generally speaking, he says, at an oil price of $50 a barrel, the CTL process is commercially viable.
>
> If oil is cheap, the CTL does not make economic sense, he says. But a growing thirst for oil and global competition for resources means CTL "is a strategic decision for a country to make".
>
> Sasol's studies say that 15 CTL plants could replace almost 15 percent of China's fuel

imports by 2020.

Its two projects are designed to produce 80,000 barrels of liquid fuel a day. Each plant is expected to cost $5 billion to $6 billion. Depending on coal quality, one CTL plant converts 13 to 19 million tons of coal annually.

3b/ COAL - The Roundup (The Oil Drum: Europe, July 2007)

http://europe.theoildrum.com/node/2726#more

Comment: Since this is the last ODAC News, I have re-added this review of five reports that came out earlier this year, each discussing / reviewing coal reserves and potential future production. The point about coal, and indeed natural gas and probably uranium, is that although their production might not Peak for years / decades, we are experiencing the first signs of supply problems now (demand outstripping supply). Coal prices have apparently doubled this year.

Below the fold there is a roundup of the five reports published in the first half of 2007 on the global coal situation. They are all broadly in agreement saying that there is likely to be less coal available than traditionally thought.

1. Energy Watch Group

A report released by the Energy Watch Group concludes that global coal production will peak about 2025.

2. The Future of Coal, a study by B. Kavalov and S. D. Peteves of the Institute for Energy (IFE), prepared for European Commission Joint Research Centre

The report identifies three trends:

Proved reserves are decreasing fast – unlike oil and gas.

Bulk of coal production is concentrated within a few countries.

Coal production cost are rising all over the world.

3. Coal of the Future, a study by B. Kavalov of the Institute for Energy (IFE), prepared for European Commission Joint Research Centre

Similarly titled, B. Kavalov has prepared a second report for the European Commission: Coal of the Future. This time focussing on the technologies of the coal industry. The last section of the report covers long term market outlooks where the following observations are made: ...

4. Dave Rutledge, California Institute of Technology

Dave Rutledge is an American researcher, based at the California Institute of Technology, who thinks that global coal reserves may be less than currently thought. He starts his presentation with a discussion of oil production / depletion, moves on to coal reserves, climate change modelling and finishes with some alternative energy solutions.

5. US National Academy of Sciences

The US National Academy of Sciences have just released a report on coal, the fifth report in as many months suggesting global coal reserves may be considerably less than

> commonly believed. Except that this report suggests taking up to 10 years to determine an accurate estimate of US coal reserves. The report questions the myth of enough coal for 250 years, indeed, is certain there is enough coal only to 2030, and that is at current rates of production.

4/ C-17 flies cross country on synthetic fuel (AirForce Times, Thu 20 Dec)

http://www.airforcetimes.com/news/2007/12/airforce_synthetic_fuel_1217/

Comment: The US air force prepares for declining oil supplies.

> Today was the day the first C-17 Globemaster flew across the country powered by synthetic fuel.
>
> A Globemaster — its tanks half-filled with standard jet fuel and half with a synthetic, coal-derived fuel — flew Dec. 17 from Washington's McChord Air Force Base to New Jersey's McGuire Air Force Base. The B-52 bomber is already certified to use this fuel mix and full certification is expected for the C-17 in coming months.
>
> It's the latest milestone in an effort to prove all of the Air Force's fleet can use this domestically produced synthetic fuel by 2011. By 2016, the Air Force wants all of its flights in the continental U.S. powered by the mix, touted as cleaner and less reliant on petroleum piped from foreign soil.
>
> ... Anderson, at a Dec. 12 Pentagon meeting with reporters, laid out a sweeping package of Air Force alternative energy projects, some of them certain and some of them in rough, innovative stages. The Air Force, as the American government's largest consumer of oil, must use its buying power to kick-start the private sector's fledgling alternative fuels market. He's presently in talks, for example, with Montana officials over pushing commercial interests to mine the state's coal reserves near Malmstrom Air Force Base and produce synthetic fuel.
>
> The Air Force's goal, Anderson said, is to build the market so it can provide roughly 400 million gallons of synthetic fuel to the service by 2016. It also needs to bring on allied air forces, which share refueling stations with the U.S.
>
> Other projects in the works include:
>
> *On the heels of commemorating the continent's largest solar "photo-voltaic" power plant at Nellis Air Force Base, Nev. — which covers 140 acres and will provide 25 percent of the base's electricity — the Air Force will request proposals for similar plants at Luke, Kirtland and Edwards Air Force bases. They're located, respectively, in Arizona, New Mexico and California. Though solar-powered projects are likely, Anderson said, other energy sources such as wind aren't excluded.
>
> *Developing a small nuclear-powered energy source — approximately one-tenth the size of a traditional nuclear reactor — that could power one base. These plans are in their infancy, Anderson said.
>
> *Heavily researching biofuels, which contain energy derived from carbon sources such as plant life.

5/ World food stocks dwindling rapidly, UN warns (IHT, Mon 17 Dec)

http://www.iht.com/articles/2007/12/17/europe/food.php?WT.mc_id=newsalert

> In an "unforeseen and unprecedented" shift, the world food supply is dwindling rapidly and food prices are soaring to historic levels, the top food and agriculture official of the United Nations warned Monday.
>
> The changes created "a very serious risk that fewer people will be able to get food," particularly in the developing world, said Jacques Diouf, head of the UN Food and Agriculture Organization.
>
> The agency's food price index rose by more than 40 percent this year, compared with 9 percent the year before - a rate that was already unacceptable, he said. New figures show that the total cost of foodstuffs imported by the neediest countries rose 25 percent, to $107 million, in the last year.
>
> At the same time, reserves of cereals are severely depleted, FAO records show. World wheat stores declined 11 percent this year, to the lowest level since 1980. That corresponds to 12 weeks of the world's total consumption - much less than the average of 18 weeks consumption in storage during the period 2000-2005. There are only 8 weeks of corn left, down from 11 weeks in the earlier period.
>
> Prices of wheat and oilseeds are at record highs, Diouf said Monday. Wheat prices have risen by $130 per ton, or 52 percent, since a year ago. U.S. wheat futures broke $10 a bushel for the first time Monday, the agricultural equivalent of $100 a barrel oil. (
>
> Diouf blamed a confluence of recent supply and demand factors for the crisis, and he predicted that those factors were here to stay.
>
> ... Part of the current problem is an outgrowth of prosperity. More people in the world now eat meat, diverting grain from humans to livestock. A more complicated issue is the use of crops to make biofuels, which are often heavily subsidized. A major factor in rising corn prices globally is that many farmers in the United States are now selling their corn to make subsidized ethanol.
>
> Mann said the European Union had intentionally set low targets for biofuel use - 10 per cent by 2020 - to limit food price rises and that it plans to import some biofuel. "We don't want all our farmers switching from food to biofuel," he said.

6a/ Call to relax Basel banking rules (The Telegraph, Sat 15 Dec)

http://www.telegraph.co.uk/money/main.jhtml;jsessionid=HSYQUYGAO2BBZQFIQ...

> The Government must suspend a set of key banking regulations at the heart of the current financial crisis or risk seeing the economy spiral towards a future that could "make 1929 look like a walk in the park", one of Britain's leading economists has warned.
>
> Peter Spencer, of the Ernst & Young Item Club, said conflicts caused by the Basel system of banking regulations, which determine how much capital banks must raise to keep their books in order, are the root cause of the crunch and were serving to worsen the City's plight.

The regulations meant that banks forced to take off-balance sheet assets from troubled structured investment vehicles on to their books had little choice but either to raise money from abroad or cut back dramatically on their spending, he said.

He warned that, if London's money markets remained frozen and the authorities retain the strict Basel regulations, the full scale of the eventual credit crunch and economic slump could be "disastrous".

Dismissing the assumption that banks are not lending to each other on the money markets because they lack confidence in each others' potential solvency, he argued that they were, in practice, prevented from lending the cash at all because it could leave their balance sheets falling foul of the Basel regulations.

"If these funding routes are not reopened it will have massive consequences for the economy as a whole," he said. "It will make 1929 look like a walk in the park."

... "The Bank is staring into the abyss," he said. "The Financial Services Authority must go round and check that all banks are solvent, and then it should cut the Basel capital requirement level from 8pc to about 6pc.

"Until then, with the money markets frozen, the Bank will have to go on being the lender of first resort, rather than of last resort."

6b/ Q3 current account gap hits record high (Reuters, Thu 20 Dec)

http://uk.reuters.com/article/businessNews/idUKL2025673120071220?feedTyp...

Comment: “The UK's external position now looks pretty much as bad as that in the US, suggesting the pound needs to fall sharply like the U.S. dollar"

Britain's current account deficit hit a record high of 20 billion pounds in the third quarter, equivalent to 5.7 percent of GDP, official data showed on Thursday.

... "This morning's flurry of UK data paints a worrying picture of a dangerously unbalanced economy...The UK's external position now looks pretty much as bad as that in the US, suggesting the pound needs to fall sharply like the U.S. dollar," said Jonathan Loynes of Capital Economics.

The GDP breakdown, meanwhile, revealed consumer expenditure rose by 1.1 percent in Q3, the fastest rate since Q2 2006. The savings ratio fell to 3.4 percent from 4.0 percent.

But policymakers are much more worried about risks to growth further ahead as the turmoil in financial markets drags on and is expected to tighten credit conditions.

"Overall, a pretty ugly picture, supporting our view that the coming economic slowdown will be a prolonged period of adjustment rather than a short pause for breath like that seen in 2005," said Loynes.

6c/ Grim data undermine Brown's claims (The Times, Fri 21 Dec)

http://business.timesonline.co.uk/tol/business/economics/article3080574....

Comment: In his book “The Great Crash 1929” (1955), John Kenneth Galbraith quotes if my memory serves me right, President Herbert Hoover and a cabal of business and political leaders, queuing up to announce that “the [US] economy is fundamentally sound”, several months after the Crash of Oct 1929, as millions became unemployed and lost everything they had, and ultimately a quarter of US banks went bankrupt. Forecasts over the last few weeks / months for the UK economy next year make grim reading, and yet:

“Gordon Brown and Alistair Darling claimed this week that the economy is fundamentally sound and well placed to ride out worsening world conditions”

Surprisingly, the article does not mention anything about energy imports regarding the UK’s atrocious balance of payments deficit. According to the latest DBERR statistics (UK govt, 29 Nov 2007, http://stats.berr.gov.uk/energystats/et3_10.xls), the UK was a serious net importer of oil and oil products for quarter three (see column H in the Quarter and Month tabs). No wonder we hit a record deficit. Except that the UK’s oil and gas production is now headed south big time, and with it our net imports, and trade deficit, will grow.

> Claims by Gordon Brown and Alistair Darling this week that the economy is fundamentally sound and well placed to ride out worsening world conditions were badly undermined yesterday by a spate of bleak official figures.
>
> City economists lined up to sound warnings that the latest grim economic news suggested that Britain's economy is badly exposed to a global downturn and “dangerously unbalanced”.
>
> In a double blow to an increasingly embattled Chancellor, the slew of worrying data showed the Government's finances in the red to a record extent last month, and the country as a whole living far beyond its means, with another record-breaking deficit on the balance of payments.
>
> “The latest flurry of UK data painted a distinctly ugly picture of a dangerously unbalanced economy, supporting our view that the coming slowdown will be a prolonged and potentially painful period of adjustment,” said Jonathan Loynes, of Capital Economics.
>
> The biggest shock in yesterday's figures came as balance of payments data showed that the current account — the broadest measure of the country's international financial position — was in deficit by a huge £20 billion in the third quarter (Q3), the highest figure since records began in 1955.
>
> The vast total marked a ballooning of the deficit from £13.7 billion in the previous quarter, and saw it swell to a massive 5.7 per cent of national income.
>
> As a proportion of GDP, this left Britain's balance of payments as deep in the red as that of the United States.
>
> ... The severe deterioration in the balance of payments was driven by a combination of a record £22.6 billion trade deficit in Q3, with an abrupt shift in Britain's investment income from abroad.
>
> In the past, Britain has raked in far more on income from its direct investments in companies and projects abroad than it has paid out to foreigners investing in the UK, but the position has now worsened markedly...

6d/ Debt fears push sterling to 20 month low (The Telegraph, Fri 21 Dec)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/12/21/cnpoun...

Comment: Similar to the FT article above. The UK economy is in very bad shape, and the UK sterling is about to lose a lot of value. At the Energy Institute's oil depletion conference in London last month, November, I concluded my talk on UK oil and gas production / depletion with a brief mention of the UK current account deficit and where it was headed due to increased imports of oil and gas. After my talk, an economist / financial analyst in the audience said that growing oil and gas imports would not present a financial problem for the UK because 'the City' (the financial services sector based in London) brought in so much money it dwarfed the amount of money we would have to spend on energy imports – all is well, don't worry. The financial services sector is in meltdown, and those with oil / gas are unlikely give it to us for free / on the cheap.

"it also calculated that the shortfalls [current account deficit] in previous months had been even bigger than previously thought" - DBERR (the former DTI) re-adjusted its oil statistics for most of 2007 in November. Previously, it showed the UK being a net oil exporter, the readjustment made us a net oil importer, especially in the third quarter.

> The pound's weakness followed ONS figures showing:
>
> • The current account deficit almost doubled in the third quarter to £20bn. As well as being the biggest deficit ever in cash terms, at 5.7pc of gross domestic product it is now comparatively even bigger than the deficit in the US, and equals the worst-ever shortfalls in the past half-century, recorded in the 1980s.
>
> • The domestic saving ratio, which measures how much of their incomes people are setting aside for the future, excluding pension contributions, remained deep in negative territory. At minus 1pc, it means families are borrowing in order to fund their everyday lifestyles - a highly unusual situation replicated in the late 1980s, before the last property crash.
>
> • The amount families and businesses are having to set aside for mortgage and debt payments hit the highest level since the early 1990s, in the latest sign that the record mountain of UK lending is causing serious pain. The household debt service burden rose to 13.6pc of income - the highest level since 1991, while the equivalent measure for non-financial businesses hit 28.8pc of their profits - the highest since 1992.
>
> • The Government's finances dipped even deeper into the red, as the Chancellor suffered a record shortfall on his budget in November. The ONS said public-sector net borrowing was £11.2bn - the biggest since comparable records began in 1993. It brings the total lending so far this financial year to £36.2bn, and raising the likelihood that Chancellor Alistair Darling will overshoot his £38bn forecast this year.
>
> The current account deterioration was one of the biggest shocks in recent economic news, since not only did the ONS report the record third-quarter deficit, it also calculated that the shortfalls in previous months had been even bigger than previously thought...

7a/ Huge ECB cash injection dwarfs BoE auction (The Telegraph, Wed 19 Dec)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/12/19/cnbank...

Comment: Fears that at least one, and quite possibly several, European banks "may be harbouring something very nasty" have been around since at least the beginning of August when the European Central Bank pumped about 150B Euros into the banking system.

> The Bank of England is once again the frugal sister of the credit markets, vastly outdone by the bountiful maiden of Frankfurt.The half trillion dollar (€349bn) blitz by the European Central Bank is 25 times larger than yesterday's auction on Threadneedle Street, where banks took up a modest £10bn of three-month credit at an average rate of 5.95pc.
>
> ... In theory, yesterday's liquidity blitz was a short-term house-keeping measure to keep the markets fluid through Christmas and New Year. The markets remain sceptical, suspecting that the eurozone may be harbouring something very nasty - possibly in the Spanish banking system.
>
> The ECB cannot allow the risk of a "Northern Rock" in Europe because there is no European government to take charge. Any suggestion that German taxpayers might have to bail out a Club Med bank would be politically explosive, testing the viability of monetary union. This is why Frankfurt has been most willing to open the floodgates at each stage of the crisis.
>
> Nouriel Roubini, a professor at New York University, said the ECB and fellow banks were now engaging in "stealth" rate cuts. "Liquidity palliatives and band-aid will not work. This severe liquidity crunch is due to insolvency and widespread lack of trust. The failure of central banks to provide the appropriate diagnosis of the crisis and now their failure to provide enough monetary policy easing to reduce the damage on the real economies is worrisome," he said.
>
> The ECB is constrained by inflation, now running at 3.1pc - the highest since the launch of the euro. Even so, the mood is shifting. Jurgen Stark, the ECB's chief economist and arch-hawk, told Italy's Il Sole yesterday that Europe would not be able to shake off the US slowdown. "I don't believe in the decoupling hypothesis. People who talk about it stress the trade links between the US and the eurozone, but you have to remember that the financial links and the effects of confidence are more important. We will not be immune," he said.

7b/ Fatwa against the dollar? (The Telegraph, Mon 17 Dec)

http://blogs.telegraph.co.uk/business/ambroseevanspritchard/december07/fa...

Comment: Very interesting article from Ambrose Evans-Pritchard, the Telegraph's International Business Editor. Most of the Middle East economies are in trouble from an inflationary point of view, and many commentators say the root cause is the Middle East currencies' pegging to the US dollar. The simple solution is for Middle East countries to un-peg their currencies from the US dollar. Until now, this solution has been considered a no-no, because of the consequences such a move would have on the US dollar / economy, and in turn, everyone else's economy. But Ambrose suggests with the Saudi religious movement now wading in, sentiment may change.

> To all intents and purposes, the Wahabi religious establishment of Saudi Arabia has just issued a fatwa against the US dollar. This bears watching.
>
> A message issued by 26 leading clerics warns that inflation has reached intolerable levels in the Gulf kingdom``.

While it does not vilify the dollar explicitly, the apparent political aim is to undermine the country's dollar peg.

... The statement was posted across the Islamic world. The background to this has been a raging debate in Gulf religious and economic circles about the destructive effects of the sliding dollar.

... My own hunch is that the next al-Qaeda strike will not be a symbolic blow to a great building or city, but rather a carefully-timed economic blow: either by cutting – or trying to cut - the oil jugular, or by trying to precipitate a run on the dollar.

The Gulf pegs are preventing the region from taking action to stop the oil boom spiralling out of control.

Half the Mid-East is now overheating. Property booms have reached unstable extremes in almost all the oil states. Construction has become maniacal.

CPI inflation is 5.35pc in Saudi Arabia, the highest in over ten years. It has reached 10.1pc in the United Arab Emirates and 12.2pc in Qatar.

The dollar pegs – designed to anchor the currencies – are now forcing the Petrodollar economies to import US devaluation and monetary stimulus.

What has been a simmering problem for over a year, has become untenable since the Federal Reserve began slashing interest rates.

... Stephen Lewis, global strategist at Insinger de Beaufort, said the Fatwa was ominous.

“The Saudi government has been the one institution in the region battling to preserve the oil link with the dollar. If these clerics are able to wear down Saudi resistance, this could breach the bulwark. The dollar would quite likely be abandoned as the chief currency for pricing oil in world markets,” he said.

If the Mid-East breaks the pegs, a chain reaction threatens to follow across Asia. China now has 6.9pc inflation. It may have to ditch its cheap yuan policy soon enough anyway, or face the sort of double digit rises that destroy regimes.

The Saudi royal family rules by a delicate compromise. Although pro-Western in military and economic alliances, it relies on the endorsement of the Wahabi clerics as a key source of legitimacy.

... One week's data mean nothing. As the Fed cuts rates ever further to the cushion US property crash bites, Mid-East inflation will go from bad to seriously ugly with the policies now in place.

The Saudis, Qataris, and Emirates have all said they will preserve the pegs. But fatwas tend to up the ante.

8/ Young Daniel Yergin as peak oil activist (book review) (Energy Bulletin, Thu 08 Nov)

http://www.energybulletin.net/newswire.php?id=36930

Comment: This article did the Peak Oil website rounds beginning of last month, so you may have seen it before. Daniel Yergin is not the only person to have switched sides, from ‘pro-Peak Oil’ to ‘anti-Peak Oil’, there are others. Many have moved in the other direction.

I first learned about Peak Oil several years ago and have spent much time investigating the accuracy of our energy problems. The more you learn the worse it gets. I came across a book at a flea market entitled Energy Future: Report of the Energy Project at the Harvard Business School [1979], edited by Robert Stobaugh and Daniel Yergin. At first I put it back due to Daniel Yergin's position on Peak Oil. About a year later I returned and found the book still there. I bought it for 50 cents.

While I have not read every page I feel it is important to review this book now that we are where we are with regards to energy.

Energy Future is an astounding book. The following is a list of the chapters.

The End of Easy Oil
After the Peak: The Threat of Imported Oil
Natural Gas: How to Slice A Shrinking Pie
Coal: Constrained Abundance
The Nuclear Stalemate
Conservation: The Key Energy Source
Solar America
Conclusion: Towards a Balance Energy Program
Appendix: Limits to models
As one can tell from the chapter headings, the subject matter parallels the issues we face today. The numbers are bigger and the politics have changed somewhat but the issues have not. The opening sentence of the first chapter reads as follows:

In 1968, the State Department sent the word to foreign governments-American oil production would soon reach the limits of its capacity.

This is a staggering statement in light of so many oil industry execs stating publicly at the time that we had plenty. The very next paragraph goes on:

But few people anywhere thought seriously about the implications of losing the cushion… Middle Eastern oil was the world's favorite fuel-easy to produce in large volumes" (a dime or two a barrel), easy to transport, easy to burn-certainly easier than coal.

Are you ready for the next paragraph?

In 1970, some 111 years after the birth of the American oil industry, domestic production peaked and began to decline.

We now call this U.S. Peak Production. What is most astounding to me is one of the writers of this chapter is none other that Daniel Yergin himself. Yes, that's right, Daniel Yergin of CERA- Cambridge Energy Research Associates, the same organization that dismisses Peak Oil as "garbage."

9/ Push for ethanol blamed for driving up food prices (International Herald Tribune [NY Times], Tue 18 Dec)

http://www.iht.com/articles/2007/12/18/business/foodprice.php?WT.mc_id=n...

Shopping at a Whole Foods Market in suburban Chicago, Meredith Estes said food prices had jumped so much she had resorted to coupons. Charles Rodgers Jr., an Arkansas

> cattle rancher, said normal feed rations were so expensive and scarce he was scrambling for alternatives. In Oregon, Jack Joyce, the owner of Rogue Ales, said the cost of barley malt had soared 88 percent this year.
>
> For years, cheap food and feed were taken for granted in the United States. But now the price of some foods is rising sharply, and from the corridors of Washington to the aisles of neighborhood supermarkets, a blame alert is under way.
>
> Among the favorite targets is ethanol, especially for food manufacturers and livestock farmers who seethe at government mandates for ethanol production. The ethanol boom, they contend, is raising corn prices, driving up the cost of producing dairy products and meat, and causing farmers to plant so much corn as to crowd out other crops.
>
> The results are working their way through the marketplace, in this view, with overall consumer grocery costs up roughly 5 percent in a year and feed costs up more than 20 percent.
>
> Now, with the U.S. Congress poised to adopt a new mandate that would double the volume of ethanol made from corn, ethanol skeptics say a fateful moment has arrived, with the United States about to commit itself to decades of competition between food and fuel for the use of agricultural land...

10/ Russian Car Market to Exceed 2.5mn This Year (FC Novosti, Thu 20 Dec)

http://www.fcinfo.ru/themes/basic/materials-rfcm-index.asp?folder=3352

> The Industry and Energy Ministry forecasts a 22% growth in the Russian car market this year.Ministry spokesman Viktor Semyonov said the market would grow to more than 2.5mn, although the share of Russian-made cars will fall from 37.3% in 2006 (783,500 cars) to 26% in 2007 (670,500).
>
> Foreign cars assembled in Russia will reach 420,000, or 16% of the market, imported cars will make 44%, or 1.1-1.2mn, and used foreign cars will amount to some 360,800 (14%).
>
> Automobile production has grown 9.9% in January to the end of November, to 1.5mn, including 1.173mn cars, 262,000 trucks, and 72,000 buses.

11/ Hostility to the notion of limits to growth (European Tribune, Thu 20 Dec)

http://www.eurotrib.com/story/2007/12/20/105646/94

Comment: ‘Jerome a Paris’ reviews an article written by the Financial Times’ Martin Wolf (The dangers of living in a zero-sum world economy, http://www.ft.com/cms/s/0/0447f562-ad85-11dc-9386-0000779fd2ac.html, itself a good read)

> "This is why climate change and energy security are such geopolitically significant issues. For if there are limits to emissions, there may also be limits to growth. But if there are indeed limits to growth, the political underpinnings of our world fall apart. Intense distributional conflicts must then re-emerge - indeed, they are already emerging - within and among countries.

(...)

The optimists believe that economic growth can and will continue. The pessimists believe either that it will not do so or that it must not if we are to avoid the destruction of the environment. I think we have to try to marry what makes sense in these opposing visions."

The above quote, from this article by Martin Wolf, recently described as the "conservative doyen of British economic commentators", exemplifies the problems we are facing:

peak oil, climate change, or a combination of both is going to force us to limit our energy consumption one way or another;

our current economic model is predicated on growth, which itself cannot, in the framework of our existing institutions and mindset, happen without a plentiful, and itself growing, supply of cheap energy in the form of hydrocarbons...