The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: January 18th 2007

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Ottawa Transit Derailed: An Interview with Clive Doucet

> Residential, commecial and road builders have made and contine to make billions of dollars from this model. In fact, the principal industry in North America has been the construction of mall-sprawl suburbs. So the long and short of it is there are enormous vested interests in continuing the urban growth model exactly as it has been undertaken now for more than fifty years.
>
> 'New ideas' like electric light rail create entirely different kinds of growth patterns. They are more pedestrian oriented, consume less land and require a more diverse and complex building pattern. The developer just can't rip off the top soil from the farmer's field and then lay out his suburban grids which has the fewest construction costs and largest profits. Electric light rail changes all this.
>
> Another reason why it is so difficult to make happen is that the initial costs are not incremental. Our council increases the city's road network by 100 kilometers a year and spends $600 million total on roads just for repair and expansion, but it's always increased incrementally. Each road expansion or reconstruction can cost anywhere from $5 million to $100 million. There are so many of them that they become part of the background financial noise of the city.
>
> In contrast, a public transit project like light rail requires a more difficult, more complex environmental assessment than a road environmental assessment, requires more initial funding than a road project, and can't serve everyone all the time everywhere - unlike roads, which are perceived as a universal service when in fact they are no more than public transit is. There are many roads in Ottawa I've never driven on and never will.
>
> The final large reason is that there is no federal or provincial funding programs for public transit systems. Canada is the only G-8 country that has no ongoing federal or provincial urban transit funding. Ottawa suffered through all of these limitations, fought for and got $400 million in special project funding from the federal government and the province ($200 million each); fought through the environmental assessments, project definition, and so on.
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> But unlike every other Canadian city, Ottawa had a senior federal minister deliberately interfering to make sure the project never happened for partisan political ambitions.

Newfoundland locks horns with oil giants over Hibernia

> The government of Newfoundland and Labrador is once again going head to head with some of the world's biggest oil companies, rejecting a proposal yesterday to expand Hibernia as it campaigns for a better deal from offshore developments for the province's citizens.
>
> Taking on a group that includes Exxon Mobil Corp., Chevron Corp., Petro-Canada and Norsk Hydro ASA, Newfoundland cited what it called a lack of key information in their application to expand Hibernia, which sits about 300 kilometres offshore Newfoundland and is Canada's largest oil field.
>
> It is the second time in less than a year that the province has played hardball on an offshore proposal, looking for a bigger take from oil with crude prices trading at roughly triple the average rate of the 1990s. Last year, the province bargained aggressively with the same group of oil companies and in April the firms walked away after extensive talks, shelving a $5-billion proposal to develop the Hebron field.

Husky plans $600-million expansion at White Rose

> Calgary-based Husky Energy is planning a $600-million expansion of the White Rose oil field on the Grand Banks.
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> The company is proposing to develop up to 25 million barrels of oil by late 2009 using what's known as a subsea tieback to the field's existing production infrastructure.
>
> The additional oil was found several years ago during exploration drilling in the southern part of the White Rose field. It was declared a significant discovery in 2004.
>
> Subsea tiebacks are commonly used in the North Sea to develop small pools of oil and gas up to 30 kilometres away from an existing production platform.

Regulatory Woes Push Back Mackenzie Gas Line Schedule

> A spokesman for Imperial Oil, a major proponent of the proposed $7.5 billion Mackenzie Valley natural gas line in Canada, said Jan 9 that given regulatory demands, the project can't be completed by 2010.
>
> "We are talking about three winter construction seasons (to build the project) .. We are at least a ways from being potentially in a position to begin construction," said Pius J. Rolheiser, Imperial Oil's spokesman in Calgary.
>
> The $7.5 billion price tag includes the large-diameter gas transmission pipeline to bring Mackenzie Delta natural gas to northern Alberta, plus three anchor fields in the Mackenzie Delta and the gas gathering system.
>
> "There have been delays within the regulatory process, which we recognized from the onset would be complex and challenging, which, in turn, by delaying a potential schedule, have an impact on project costs," Rolheiser said.
>
> Construction of the Mackenzie gas line is considered by many to be critical to eventual construction of any gas line from Alaska's North Slope via Canada to the Midwestern

United States.

Towards greener energy

The provincial government is expected to release their energy plan in the coming weeks, and the BC Sustainable Energy Association is hoping that the province will allow rate payers, not taxpayers to lead the way.

Guy Dauncey, President of the BC Sustainable Energy Association, has been critical of the provincial government for keeping their energy plan secret. The plan is set to be released in the coming weeks.

Dauncey said that the province hasn't opened the debate to the general public, and instead has had small private meetings with selected industry and NGO groups.

"And yet the new energy plan defines our future. Are we going to have a future powered by wind, by biodiesel, or hydrogen or coal? These things are suddenly on top of the agenda," said Dauncey.

'War Brewing' over Mining Rights in Rural BC

And now Essington, who owns one faded set of clothes and an old leather miner's hat peppered with holes, has bought rights to about 150 acres of his neighbours' land. For $50.

He was able to do that because last year the province created an online staking system that allows anyone with internet access and $25 to acquire a miner's license and then, at $0.17 an acre, buy mineral rights to land. It doesn't matter whether that land belongs to a neighbour, the Crown, or the "miner" himself. Once you own the mineral rights, you are free to "explore" your claims, wander the property, "poke at a few rocks," in the words of MP Tom Christensen. And once you decide to start drilling and digging, even the landowner's dwelling and buildings are at risk. That's the law under the Mineral Tenure Act as of 2002, when the section prohibiting miners from "obstruction or interference" with activities (or buildings) on private land was repealed.

Essington may have the law on his side for now, but his claim has helped spark a grassroots uprising by infuriated landowners on Bluenose Mountain and beyond. They call themselves the B.C. Landowners Rights Group (BCLOR) and say they are determined to fight the government until the balance of power swings back to those who live their lives on land they own, instead of anyone who comes along and wants to grab the minerals resting underground....

....Part of the mine-staking surge is speculative. The process of extracting methane from coal beds is seen by some miners and government officials to be the wave of the future in B.C. Though coal bed methane (CBM) has not yet been commercially produced in the province, the government and mining industry have staked out several areas "with a high potential for CBM" and are already making some PR efforts.

Environmentalists vigorously oppose the mining and producing of coal bed methane, noting the inherent environmental risks in the extraction process, particularly to water sources. But if energy prices continue to rise, so may demand for "natural gas" from coal. About $20 million has already been spent on CBM exploration in B.C. The Yorston property sits atop a coal seam. To Lenore's knowledge, no one has ever drilled it to test for CBM potential, but the mere possibility is "unthinkable" to her. "Once they drill down, your whole water source is ruined," she claimed, referring to the aquifer that sits below her ranch.

Uranium-drilling proposal hits a nerve in the North

A proposal by a Canadian mineral company to test-drill for uranium in an environmentally sensitive and remote part of the Northwest Territories, the Upper Thelon Basin, has triggered alarm bells among local native communities, environmentalists and ecotourism operators who see this as the first step toward eventual full-fledged and potentially damaging uranium mining.

The region -- which has great historical, cultural and spiritual significance to aboriginals -- is home to vast herds of caribou, musk oxen, Arctic wolves and barren ground grizzly bears, as well as numerous species of birds. Rivers and lakes teem with huge northern pike, trout and grayling.

Representatives from Ur-Energy, a mineral exploration company based in Ottawa, will be making a presentation to the Mackenzie Valley Environmental Impact Review Board in order to obtain a permit to drill in the Screech Lake area -- approximately 100 kilometres southwest of the world-famous Thelon Wildlife Sanctuary.

Clean energy looks lucrative: Study

Rising power prices, the need to build more electricity generation and serious concerns for the environment are creating huge investment opportunities in the clean-energy market, according to a report from Sprott Securities Inc.

The situation has become so pressing that politicians in Canada and the U.S. are embracing the environment as a top campaign issue as both countries nudge closer to elections.

"I don't think we've ever seen these (market) drivers converge as we're seeing now," said MacMurray Whale, alternative energy analyst at Sprott and author of the report, Power, Politics and Technology.

"Energy security, high energy prices and issues of the environment – they're all being dealt with at the same time. Politicians are looking around and looking at the potential of technology. They're saying, `How can we fix this? I need a tool to fix this.' At the same time, you have the cost of these technologies coming down."

Interest groups nervous about Tories' climate change confusion

Cutbacks, delays and reviews of billions of dollars worth of federal climate change initiatives have done more than take their toll on investments for industry and clean air for the environment.

They have also created new challenges for the replacement programs to be unveiled by the Conservatives this week.

"I think the uncertainty has sent signals to investors, both within and outside Canada, that's caused them to think: 'Well, what is really going to go on here?'" said Robert Hornung, president of the Canadian Wind Energy Association, which represents 280 manufacturers and energy companies.

"We had a commitment that had been passed in the federal budget that did not proceed."

Hornung was referring to a $920-million commitment adopted in 2005 to subsidize wind power developers by paying for one cent of every kilowatt hour of electricity for their first 10 years of operation. But a number of companies put their plans on hold because of the Conservative government's decision to suspend the program, said Hornung, who is hoping for a clear announcement to bring stability to the industry.

Natural Resources Minister Gary Lunn and Environment Minister John Baird are scheduled to begin a three-part series of new climate change initiatives in Ottawa today.

Ottawa to spend $230M on clean energy technology

The announcement, one of three this week involving environmental initiatives, is part of a larger federal plan to promote Canada as an energy superpower.

"The energy sector is one of our greatest successes. It is a priority for our government," Lunn told reporters in Ottawa. "But we must do better. We must reduce emissions. We must become a clean energy superpower."

Lunn said the investment, called the Eco Energy Technology Initiative, means total government spending on the environment will be $1.5 billion over the next four years.

He said the federal government has decided its priorities for the environment include energy efficiency, renewable energy and cleaning up conventional energy.

"We think technology is one of the keys to cleaning up conventional energy production," he said.

Cleaner energy consumption, he said, includes carbon capture and storage and clean coal technology and research and development that will enable oilsands production in Alberta to be cleaner.

Harper can atone for Kyoto with firm action on environment

Roughly seven out of 10 respondents agreed with the statement: "I don't care whether the new federal government implements Kyoto or not, so long as they take real action to make our environment better."

Innovative Research spokesman Greg Lyle said the results suggest Harper, who is planning a series of announcements on the environment, won't necessarily be punished for saying Canada won't meet its Kyoto commitments.

> "While the public is committed to addressing global warming, the public does not view Kyoto as the only road forward," he said Tuesday. "The government has permission to explore other policy options."

[Dion touts clean coal for power]

> It's also time to look at clean coal as a solution to meeting electricity needs while reducing harmful emissions blamed for global warming, Dion told a business audience in what was billed as his first major speech as head of the federal party.
>
> "I think there are cleaner coal possibilities, we need to go there to invest in it and to be a champion in the world," said Dion, noting university researchers in Saskatchewan and Alberta are looking into the potential.
>
> The remarks appeared to put him at odds with his Liberal cousins in the Ontario government, who are preparing to build more nuclear power plants and hoping to phase out coal-fired power plants to meet the twin challenges of fast-growing electricity needs and increasing smog.

[Jack Layton's Hot Button Issues]

> On Layton's right is Stephane Dion. The long-shot former Liberal cabinet minister wrapped himself in green before marching to the head of his party in December. Now he can't make a public appearance without flaunting his dog Kyoto, and showing off his enviro chops. On Layton's left is Elizabeth May, the leader of the Green. The party has great brand recognition to go with its growing profile as the go to party on the greenhouse file.
>
> Even six months ago, Layton could safely say he owned the environment issue. Now? He's just one of three. And with Canadians now ranking the environment as high as health care in some polls, and a wacky winter blasting the normally temperate West Coast, small 'g' green voters could make all the difference in the next federal election.
>
> It's no surprise then, that when Layton sat down with The Tyee this week in Vancouver, he had climate on his mind. Over decaf coffee at the Four Seasons hotel bar, Layton spoke about climate legislation, the new Liberal leader and more.

[PM's pledge to Quebec riles other provinces]

> Stephen Harper's election promise to woo Quebec by reducing Ottawa's role in shaping provincial programs is running into stiff resistance from other governments that say they don't want Mr. Harper to tie the hands of his successors.
>
> The Harper plan, which sources say the government has been hoping to introduce this spring, aims to fulfill a pledge to give the provinces more control over federal funds by reducing conditions on Ottawa's transfers. The government has begun preliminary discussions with provinces about the notion.

However, a number of those provinces are expressing concern about the idea, particularly if it is introduced into law -- one of the possibilities the government is considering.

"Saskatchewan does not think that we should be balkanizing the country," said Dylan Jones, executive director of Canadian intergovernmental relations for the Saskatchewan government.

Teachers, Sherritt team up on 'syngas'

Sherritt International Corp. and the Ontario Teachers Pension Plan are looking to cash in on the Alberta oil sands boom with a proposal to build a $1.5-billion plant to supply the energy-hungry industry with synthetic gas produced from coal.

Oil sands operations require massive amounts of energy to extract and process raw bitumen into synthetic oil. Many use costly natural gas to produce steam to recover the sticky bitumen buried deep beneath the northern Alberta ground.

Sherritt and its pension fund partner are hoping to mine the plentiful coal reserves in the area and build Canada's first coal gasification plant to convert the coal into synthetic gas or "syngas."

Cities demand cash for disasters

Even though they are the first responders to any natural disaster or terrorist attack, Canada's cities and towns are largely ignored and underfunded by the federal and provincial governments, a major conference on emergency preparedness was told yesterday in Ottawa.

The heads of the Federation of Canadian Municipalities and the Conference Board of Canada said this problem represents the real "fiscal imbalance" across Canada and does not bode well for how various levels of government would respond to a major disaster in Canada, such as an earthquake or tsunami on B.C.'s coast or a terrorist attack on Ottawa.

Chevron and Shell delay natural gas projects, sending prices higher

Chevron and Royal Dutch Shell are delaying construction projects from Australia to Nigeria, threatening to drive natural gas prices higher for years to come.
None of the world's biggest energy companies approved developments last year to increase production of liquefied natural gas, or LNG, which helps to heat homes and run power plants from Tokyo to Boston. The main reason is that the cost to build such plants has tripled in six years, according to Bechtel Group, the biggest U.S. contractor.

"Costs are going up, and they're going up far faster than anybody expected," said Andy Flower, a consultant in Britain to the industry and a former BP executive. He forecast that a world liquefied natural gas shortage would last until at least 2011.

[Oilsands Quest Reports Saskatchewan Success]

> Oilsands Quest Inc. said that drilling results to date in its winter 2006/07 exploration program on its oil sands exploration permits in northwest Saskatchewan indicate an 87 percent success ratio. Between November 3, 2006 and January 15, 2007, a total of 31 holes were drilled and, of these, 27 were cored through bitumen-bearing McMurray formation.

[Rival Reports Breakthrough in Oil Sands Technology]

> Rival Technologies Inc. announced that it has received and analyzed additional data from tests conducted last month. The Company said that it now owns an extremely valuable formula that represents a breakthrough for upgrading oil sands bitumen and heavy oil.
> The invention is a method of upgrading heavy crude oil (HCO), especially high-sulfur HCO, via the addition of Rival's proprietary distillable recyclable additive (DRA) to form an HCO-DRA mixture. The HCO-DRA mixture is then heated and distilled to form a lower-density, lower-acidity, ash-free distillate containing less sulfur, having lower viscosity than the feed HCO and having lower olefin content than a distillate produced without DRA addition.

[Canada's 'prosperity is at risk']

> The board found Canada has fallen from third to 12th place in an analysis of global economic indicators, lagging behind most developed countries in productivity, while its resource sectors and cities are "starved for investment" compared with their international counterparts.
>
> Canada should follow the European Union's example and create a "single market" economy that would bring down barriers between the provinces and it should sharpen its foreign policy to engage better with China, the world's fastest-growing economy, says the board's report.

[Russia offers to break the ice to open Port Churchill]

> He said the bilateral talks on the so-called Arctic Bridge sea route have been on the back burner for the past 15 years, but the time has come to act on it.
>
> Russia has a fleet of seven modern icebreakers that could render Churchill and the Siberian port of Murmansk serviceable throughout the year.
>
> “Now we have the people, we have the money and we have the political infrastructure,” he said at a luncheon meeting. He said the improved transportation links would further enhance business co-operation in areas such as energy, noting that Russia is now planning to ship liquefied natural gas to North American markets.

U.S. housing bubble has the potential to blow up

> Still, out on the margins, where the positive feedback mechanisms that inflated the bubble were born, out where the interest-only and 120-per-cent loan-to-value mortgages, the negative amortizers with "teaser" rates and the option ARMs (adjustable-rate mortgages) live. This is "subprime" country. "Prime" loans are ones where the odds favour eventual repayment. With subprime loans, that's not necessarily the case.
>
> From 1994 through 2003, subprime mortgage lending grew at an annual rate of 25 per cent, up tenfold in nine years. In 2005 and the first three-quarters of 2006, lenders made $900-billion (U.S.) in subprime loans. As of September, 2006, 80 per cent of all subprime mortgages were "Option ARMs." ARMs usually have features like "minimum payment options" (the principal you owe gets bigger over time), or "interest-only" payments (you never pay it off and had better hope house prices only ever go up). One out of every three home buyers in the first eight months of 2006 got some kind of pay-option mortgage -- that's up from one in five in 2005 and only eight out of a thousand in 2003.
>
> Usually ARMs are referred to as 2/28, meaning payments are low for the first two years, and then increase by 40 or 50 per cent for the next 28 years. There is at least $1-trillion worth of option ARMs (41 per cent of the total outstanding) whose payments will increase in 2007, though I've seen estimates as high as $2-trillion.
>
> Adding spice to the mix is that a staggering 45 per cent of these subprime loans required "low documentation," real estate parlance for don't ask, don't tell. ("You want a half-million-dollar loan to buy a house, have no down payment, and you haven't worked in five years? Okay, we didn't hear that last part. You're approved."). Fully 38 per cent of all subprime mortgages in 2006 were for 100 per cent of the price of the house.
>
> In the third quarter of 2006, 12.5 per cent of all subprime loans were already delinquent on their payments after nine months. In the past month or so, seven subprime lenders have gone belly up. Perhaps a level of documentation greater than "low" would have been more appropriate?

Buyers Scarce, Many Condos Are for Rent

> After six weeks of failing to lure more than a couple of dozen buyers, Mr. Franco and his partner, Jeff Blum, joined the builders of nearly 6,000 condominium units in the Washington metropolitan area who have decided in the last three months to recast their projects as rental apartment buildings.
>
> Since the middle of 2006, the frenzied condominium market here and in several other big cities like Las Vegas, Miami and Boston has collapsed. Once roaring sales have slowed to a trickle, sparse inventory has mushroomed into a glut and soaring prices have flattened out and started falling.
>
> In many cities, banks have significantly scaled back loans to condominium builders. Some have demanded that developers sell half or more of the units in a building before even beginning construction.

> In hopes of salvaging something from their costly plans, hundreds of developers like Mr. Franco are looking to the strong market for apartments, planning to rent their units for at least a couple of years while waiting for todays condo surplus to shrink.

[Housing bubble bloodbath]

> The housing bubble is actually an extension of the stock market bubble; Greenspan's earlier swindle which cost American investors $7 trillion in retirement and life-savings. Both equity balloons can be attributed to the shabby and exploitative monetary policies of the Federal Reserve. By expanding credit and money supply via low interest rates, the Fed has kept the economy whirring along, creating the impression of prosperity when it's all just smoke and mirrors. America's opulence is built on a mountain of debt that's piled a mile high. Regrettably, that mountain is about to cascade on the American people sometime in 2007-2008. There'll be no escaping the fallout from the $4.5 trillion dollars of new mortgage debt that's built up in the last seven years. By the end of 2007, we should be able to identify many of the painful trends that accompany a deep recession; prices of homes will steeply decline, GDP (gross domestic product) will fall, and Greenspan's mighty Temple of Debt will crash to earth....
>
> ....Of course, the banks never would have exposed themselves to such extraordinary risk if they weren't able to bundle up these dubious loans and ship them off to Wall Street. Fund managers have been more than eager to take this "collateralized debt" and use it in the booming hedge fund industry. No one really knows what will happen to the stock market when foreclosures begin to skyrocket and the banks and hedge funds are unable to recoup their losses. But a major "correction" (meltdown) is certainly not out of the question.

[The Daily Reckoning, January 17th]

> It is all very well for wealthy speculators to be ruined. They usually gamble with money they can afford to lose. But in this last go-round, the average fellow put everything he had on the table. Without realizing it, he speculated with the family home. There is more to it than that, of course. What we are seeing is really a massive transfer of wealth...the biggest transfer ever.
>
> You see, what drew the average man into the mortgage market was the allure of getting something for nothing. Without lifting a finger, his house rose in price. He looked...and thought he saw free money. He could 'take out' this extra wealth...and still have as much equity in his house as he began with. He felt he was actually getting richer...so why not spend a little more?....
>
> ....Ah...there's the slick, tragic, disastrous side to this performance. It is as if the central banks had printed up huge quantities of additional dollars, and instead of distributing these to the economy at large, it gave them only to the rich. Thus, the rich gain the benefit of the inflation; their purchasing power rises dramatically. But the rest of the population suffers because of it; their own purchasing power declines. They have no more income, while they have higher living expenses; health care, housing, energy and education have all gone up sharply. And to make
> matters worse, they now have to pay off the money they borrowed when they thought they were getting rich.

[Oil's Plunge a Fake - Expect $80 a Barrel Before 2008]

"We're seeing the exact same phenomenon we encountered last summer," said Kevin Kerr, editor of Resource Trader Alert. At the height of oil's rise in the summer of 2006, Kerr believes that the price was driven way above actual value by the "fear premium" of another potentially devastating hurricane season. "Now we are seeing the same irrationality on the downside," Kerr continued, "Everyone wants to see cheap oil, and momentarily adequate oil supplies and a warmer winter are giving speculators an excuse to sell."

"No actual change in production, supply, or distribution is fueling this sell-off," Kerr continued. In fact, the market seems to be ignoring any resistance against the current plunge in prices. Venezuelan leader Hugo Chavez announced recently that he intends to completely nationalize oil production. Chavez's infamy and his government's instability would naturally lend to an increase in oil's value, but the market was almost completely unresponsive. According to Kerr, the same statement back in July of 2006 "would have sent oil to $100 a barrel...there isn't a doubt in my mind."

"The real outlook for oil is not good," concluded Kerr. "I've heard predictions of a late season cold-snap due to El Nino, geo-political tensions are as high as ever, and the Gulf Coast is still very vulnerable to hurricane damage," said Kerr. "A lack of viable alternatives will keep oil demand high and any sort of disaster could easily send the price up 30-40%.

"The bottom line is that as we get close to summer, likely in March when OPEC meets again, reality will sink in and the shorts in this market will begin to run for cover." said Kerr. "This pendulum will definitely swing back the other way - hopefully with some basis in the true fundamentals. Right now crude should be, in my opinion, about $63/barrell. This summer it should have been at about $68, not $78." Kerr went on to say, "By the year's end I fully expect this market will be making a new high - if not sooner."

[Polar Bear and Commodity Bulls]

All else being equal, resource stocks tend to perform better when the prices of underlying commodities are rallying. Unfortunately, the prices of most commodities are falling these days. And Richard Morrow suspects they might continue to fall for a little while longer.

Richard, who hangs his straw hat in Memphis, Tennessee, is long-time investor in agricultural commodities. He also happens to be a long-term bull on commodities. But what he's seeing in the markets right now has him very distressed.

"All commodities are at risk of a liquidity implosion," he warns. "I am not going long anything anytime soon. The GSCI commodity index is down over 7% to start the year, after being down 15% last year. I think there is a 25% chance we could see a meltdown in all commodities this month as investors start to throw in the towel. If the GSCI longs want out, the door is not big enough."

Richard derives his grim outlook from the fact that speculators hold massive long positions in most commodities. The so-called "specs" in the commodity markets are notoriously fickle and reactive...and wrong. Whenever they place large bets, it's often a good idea to take the other side.

[Economic Realities: Gary Shilling]

China will suffer a hard landing due to domestic cooling measures and U.S. recession. China is attempting to cool her white-hot economy, which grew at an estimated 10.5% rate last year, but is having difficulty. Fundamentally, China is experiencing a capital investment bubble, which is
very misleading even in open market economies since is sends the wrong signals to participants. Since it takes capacity to build more capacity, what looks like strains and shortages are really symptoms of mammoth excess capacity problems that are only revealed when the boom subsides. That's what happened in the U.S. new tech boom in the late 1990s, and now
in China in less sophisticated industries. That excess capacity will, of course, drive even bigger exports.

A major U.S. recession will shrink Chinese exports dramatically as U.S. consumers buy less of everything, especially imports. Indeed, as U.S. manufacturing shifts to China, so does its inherent volatility and inventory cycles-and the long shipping time between China and the U.S. enhances those cycles' violence. So between domestic economic cooling measures and a U.S. recession, a Chinese business slump is in the cards for 2007.

[The Return of the Dust Bowl]

The Plains were a region of high winds and light rainfall. Yet the 1920s were pretty forgiving in terms of drought. There were warnings, though, such as stories of topsoil blowing in Kansas after a stretch of dry hot weather. But in the 1930s, we had some real drought in these places. The combination of drought and desiccated farmland would create the epic dust storms. "Retribution for the very human error of breaking the sod of the Plains had come in full measure," Allen wrote.

I recently spent some time looking over pictures of the aftermath of these blizzards. They are incredible and simply hard to believe. Yet I see how something like this could happen again. Except this time, it will be bigger. And it will happen in China. But don't think it won't affect what happens in America. Plumes of dust emanating from northern China have already hit the U.S. mainland.

As Lester Brown, author of Outgrowing the Earth, explains: "With little vegetation remaining in parts of northern and western China, the strong winds of late winter and early spring can remove literally millions of tons of topsoil in a single day - soil that can take centuries to replace." These dust storms are so strong that they can peel the paint off cars. They often force the closure of schools, airports and stores - even in places as far away as South Korea and Japan.

As with the Great Plains, northern China is dry and farmed intensely. Already, China's farmland is turning to desert at an alarming rate. Estimates peg the loss at more than 900 square miles per year.

[Tax hikes needed in US to avoid demographic tsunami]

> Tax increases are essential to avoiding long-term fiscal ruin and overcoming a "demographic tsunami" that would eventually swamp the US budget with senior citizen health care and retirement costs, Comptroller General David Walker told Congress on Thursday.
>
> At a Senate Budget Committee hearing on America's long-term budget outlook, Walker urged Congress to waste no time in cutting spending on massive government programs, many of which will grow significantly as large numbers of "baby boomers" retire.
>
> But Walker also warned the new Democrat-controlled committee that cutting spending will not be enough.
>
> Tax revenues at the current 18 percent of Gross Domestic Product "won't get the job done," said Walker, who heads the US Government Accountability Office, the investigative arm of Congress.

[Bank of Canada bets on U.S. recovery]

> Bank of Canada Governor David Dodge is betting the worst is over for the U.S. economy, and that the Canadian economy is now quickly picking up speed. But it's a bet that is high risk, economists say even those who generally agree with his assessment.
>
> The central bank announced yesterday its key interest rate would remain unchanged at 4.25 per cent, and gave no indication about any move up or down any time soon. The justification for its pause which began last May hinges on a quick recovery in the United States.
>
> There are signs that a significant amount of the adjustment in the U.S. housing and automotive sectors has already taken place and that the inventory correction in Canada is well advanced, the central bank said in a press release. Accordingly, the bank projects that economic growth in Canada will pick up to about 2 per cent in the first half of 2007.

[1918 flu virus triggers overwhelming immune response]

> The virus that caused the 1918 influenza pandemic triggered an overwhelming immune response that swamped the lungs of macaque monkeys - the first primates deliberately infected with the Spanish flu virus, Canadian and American scientists reported Wednesday.
>
> The research, done in part at the Public Health Agency of Canada's National Microbiology Laboratory in Winnipeg, supports the notion that the virulent flu virus turned the body's immune system against itself. Scientists believe that theory explains how the devastating influenza strain managed to mow down unprecedented numbers of healthy people in the prime of life.
>
> Previous work, done by some of the same scientists, showed mice infected with the virus also experienced this hyper immune response, a so-called cytokine storm. (Cytokines

are one of the proteins the immune system makes to fight infection.)

"There was an uncontrolled or aberrant inflammatory response," one of the authors, Dr. Michael Katze of the University of Washington in Seattle, explained in a telephone briefing.

Doomsday Clock ticks closer to midnight

The world has nudged closer to a nuclear apocalypse and environmental disaster, a trans-Atlantic group of prominent scientists warned Wednesday, pushing the hand of its symbolic Doomsday Clock two minutes closer to midnight.

It was the fourth time since the end of the Cold War that the clock has ticked forward, this time from 11:53 to 11:55, amid fears over what the scientists are describing as "a second nuclear age" prompted largely by atomic standoffs with Iran and North Korea.

But the organization added that the "dangers posed by climate change are nearly as dire as those posed by nuclear weapons."

The Bulletin of the Atomic Scientists, founded in 1945 as a newsletter distributed among nuclear physicists concerned by the possibility of nuclear war, has since grown into an organization focused more generally on manmade threats to the survival of human civilization.