



## The Round-Up: March 6th 2007

Posted by [Stoneleigh](#) on March 6, 2007 - 10:08am in [The Oil Drum: Canada](#)

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### [Stelmach warns Ottawa on oil sands](#)

Alberta Premier Ed Stelmach has urged caution on a Commons committee report that suggests more federal involvement in the oil sands and a reduction in tax benefits for producers.

"Everyone forgets that over the next 20-year period, about \$51-billion, 41 per cent of the income, flows to the federal government," he said yesterday.

"They actually make more on the oil sands than we do.

"There's also tremendous sharing of that wealth with other provinces. It means jobs. It means jobs in Ontario. It means jobs in Quebec. It also means jobs in the Maritimes. So when they start thinking about starting to dicker with the investment climate, they've got to think it through because it's going to affect Canadians."

The Premier was responding to a leaked draft report of the Commons natural resources committee. In it, the panel suggests that Ottawa cancel its generous tax treatment of the Alberta oil sands industry that would put it on the same footing as the rest of the energy sector.

The tax break -- the accelerated capital cost allowance -- was implemented to spur oil sands technology and is now estimated to be worth \$1.4-billion annually.

### [MPs urge new rules to force cuts in oil sands emissions](#)

The Conservative government should introduce rules to force a drastic cut in emissions produced by oil-and-gas companies operating in Alberta's oil sands, a Commons committee recommends.

The regulations should also ensure that future oil sands expansion is done in a way that does not "jeopardize" Canada's obligations under the Kyoto climate change accord, says the yet-to-be released report of the natural resources committee, obtained by the Star.

"The mounting environmental and social costs associated with oil sands activities ... make it increasingly clear that it would be irresponsible to continue on a 'business-as-usual' course. It is time to begin the transition toward a clean energy future," says the report, dated Feb. 28 and marked "Confidential."

[Canadian Oil Sands Nuclear Plant Seen for 2016](#)

The Energy Alberta Corporation says it wants to place a C\$5.5 billion (US\$4.3 billion) Canadian-built Candu twin reactor plant in northern Alberta to provide the massive amounts of power needed to extract oil from the sticky sands.

"One reactor (would be) in 2016 and the second one would be in 2017 ... We're taking it to where we feel there's less resistance (from the public)," corporation director Wayne Henuset told Reuters.

"We hope to site it and talk to the communities in the next two months," he said in an interview on the sidelines of a nuclear industry seminar.

Two further reactors are planned for a later unspecified date. Henuset said the potential customers for the power were all major oil companies, but he declined to give details.

[Inter Pipeline Fund to pay \\$275M for Corridor system](#)

An Alberta-based pipeline fund has inked a deal to buy into the expansion of the oilsands by purchasing a key link between an oilsands project and an upgrader.

Inter Pipeline Fund said Monday that it will pay \$275 million and assume \$485 million of debt in the purchase of the Corridor Pipeline System from U.S. energy company Kinder Morgan.

Corridor links the Muskeg River bitumen mining operation near Fort McMurray, Alta., to the Scotford upgrader in Edmonton, about 445 kilometres south. The operation involves about 1,000 kilometres of pipeline and over two million barrels of storage.

[Groups concerned about oilsands water plan](#)

Alberta Environment's new water management plan for the Athabasca River makes some people anxious because it will still allow oilsands companies to withdraw water during a serious drought.

The Athabasca River Water Management Framework comes after calls from First Nations, environmentalists and a recent cabinet-appointed committee for a plan to protect the needs of people and wildlife that rely on the river.

Alberta Environment's plan relies on constant monitoring of the river's flow to make decisions about how much water companies can pump out of the Athabasca.

The river is split into five sections, or reaches, each rated in sensitivity according to how vital it is for fish spawning. If the flow of water through a reach is considered healthy, it's rated green and industry is allowed 15 per cent of the river's flow. Impacts may begin to appear during a yellow rating and withdrawals then should not be more than 10 per cent of the flow, the plan says.

About five per cent of the time, the river shrinks to a level where significant ecosystem change is expected. This warrants a red zone label, but companies are still allowed to withdraw 15,000 litres per second.

### [Iogen a credibility test for Harper government](#)

For more than three years Iogen has warned that it could build its first commercial-scale facility outside of Canada unless the feds step up with a sizeable sum of money to help defray the risks associated with such a venture, which carries capital costs of more than \$300 million. The company is already about 18 months behind a construction start date for such a facility that Mr. Passmore gave to the media in August 2004.

It's not that the Canadian government hasn't provided some financial support for the validation and commercialization of Iogen's patented technology. Both the Liberals and Conservatives have made investments over the years. The most recent came only a month ago, when the company received a \$7.7-million loan for upgrades for the demonstration plant on Hunt Club Road. But such investments are far short of the amount needed for a full-sized commercial facility.

Seeing Iogen become a profitable commercial venture would be a huge win for Ottawa and Canada. The company's technology is unique in the world. The key distinction between its ethanol process and those of its competitors is that it produces fuel from agricultural waste rather than from corn kernels and grains. Corncobs, stalks and any kind of straw can be used, providing a new market for plant waste and possibly new sources of revenue for farmers.

Call me cynical, but I doubt the U.S. government would earmark cash for such a venture without requiring that it be built on U.S. soil where it can create U.S. jobs. Mr. Passmore may still see a "three-horse race," but the U.S. Department of Energy's own press release last week said in no uncertain terms that the grant is for a plant that "will be built in Shelly, Idaho, near Idaho Falls."

### [Ottawa won't let truckers use off-road diesel](#)

Duncan said Ottawa had indicated earlier Friday it would try to allow truckers to use the off-road diesel.

"Then, this afternoon, we found out their lawyers are saying they can't do it," said Duncan.

Lunn, in explaining why Ottawa would not allow the diesel to be used, said "once it gets into the system, I'm told the fuel supply remains contaminated for some time."

Lunn said there is a liability issue, as the engines in 2007 model vehicles "are designed for the low-sulfur fuel diesel."

Duncan said while the shortage is a "serious situation ... I don't want to create the impression that we are in some kind of crisis. We're not."

### [Imperial Oil will lose 6% refining capacity](#)

Consumers are griping that oil companies are have driven up gas prices at the pump

amidst an Ontario gas shortage, but it's not clear how the whole debacle will affect Imperial Oil's bottom line this quarter.

Canada's largest integrated oil company will have suffered an estimated six per cent loss in its refining capacity in the first quarter of 2007 as a result of the recent fire at its Nanticoke refinery, Adam Zive, an analyst at Desjardins Securities, said Friday.

But any lost volumes could be more than offset by increased profit margins in the oil refining industry since last year, he said.

Nanticoke stopped accepting new crude oil for processing after the Feb. 15 fire, which damaged its critical atmospheric and vacuum unit. The refinery normally processes 118,000 barrels of crude oil per day, or more than 18 million litres.

In addition, the cost of repairs to the Hamilton-area refinery could be significant since equipment costs in the industry have shot up by about one-third in two years.

### [MPAC ruling really blows](#)

The environment is a hot topic right now. Everyone wants to do something to help. Why then is Max Woschnigg being punished? Woschnigg built a windmill on his farm on Highway 124 for two reasons. One, to save money on energy costs. Two, to be environmentally friendly.

Thanks to a reassessment of his property value from MPAC, the savings will likely be almost nullified by a huge tax increase. And Ontario's Energy Minister Dwight Duncan said he feels no sympathy for Woschnigg.

This from the government calling on residents to do whatever they can to help reduce energy use in the province in order to prevent a crisis or a blackout, like the one of 2003. OK, so Woschnigg has to pay more in taxes. So be it. But there has to be some tax incentive he could be given for thinking green. Otherwise, maybe Woschnigg should start burning dirty coal on his property for all his power needs. It would likely cause his property value to decrease, meaning a reduction in property taxes, all while reducing his energy bill and ruining the environment. Maybe that will get the government give its head a shake and start rewarding people for being energy-efficient as opposed to punishing them.

### [Property Tax on Wind Turbines](#)

We discussed the issue with the Ministry of Finance, which is responsible for governing property tax. They understood that it was bad public policy to tax wind turbines out of existence, and that the uncertainty over the value to be used would deter investment, and cause uncertainty of tax revenues for municipalities. After about 6 months of discussions, they decided that it would be best to set a fixed value per megawatt of installed capacity. The assessed value was set at \$40,000 per megawatt, plus one acre of land per turbine.

### [Economy grinds to slowest pace in three years](#)

The Canadian economy limped to its slowest pace in over three years in the fourth quarter as business inventories buckled.

The gross domestic product, which measures the value of all goods and services produced, slowed to a 1.4-per-cent annual pace in the fourth quarter, Statistics Canada said Friday. It was the slowest pace since the middle of 2003, when the economy was grappling with SARS and an outbreak of mad-cow disease.

### [Suzuki says Canadians willing to pay cost of fighting climate change](#)

After meeting with tens of thousands of Canadians on a cross-country tour, environmentalist David Suzuki says he's convinced that most are willing to pay more out of their own pockets to fight climate change, provided that big industries are forced to do the same.

"Maybe we're speaking to the converted, in which case there's a hell of a lot of converted, but certainly the people we encountered are ready to pay higher prices and to sacrifice, because they see this is a great danger," said Suzuki.

### [Canadian activist given hearing on global warming and human rights](#)

Canadian activist Sheila Watt-Cloutier's zealous drive to cast global warming as a human rights issue will have an airing Thursday at a commission of the Organization of American States.

And while the Inter-American Commission on Human Rights can't compel the United States to do more to prevent climate change, just having the hearing is a victory, she said. "We're really just happy about that," said the former chair of the Inuit Circumpolar Council who's been nominated for the 2007 Nobel Peace Prize along with former U.S. vice-president Al Gore for wide-reaching environmental efforts.

### [Climate change in the Maine woods](#)

.D. Irving Ltd. is Maine's largest private landowner, with 1.3 million acres in Aroostook County. Foresters manage its land primarily for spruce-fir sawlogs, as well as paper mill pulp and power plant fuel.

Now the Canadian-based company is exploring another potential value for those forests that could be worth millions of dollars -- carbon dioxide storage.

Irving is supporting carbon storage as part of plans to establish a Northeast regional program that would cap how much CO<sub>2</sub> power plants can emit. To exceed the limits, plants could buy credits from landowners that manage trees in ways that store additional amounts of carbon. That would give forest owners additional financial value from their land.

### [Food prices to rise as biofuel demand grows](#)

Consumers will have to pay more for food in coming years as demand from biofuel manufacturers has pushed up the prices of corn and other grains for the long term, a senior economist of the US government has warned.

Keith Collins, chief economist at the US department of agriculture, also said grain prices could be very volatile this year because of low global grain stockpiles.

### [U.S. Heading For Financial Trouble](#)

When the stock market plunges like it did this week, everyone pays attention. The man you're about to meet says hardly anyone is paying attention to what really threatens our financial future. Like an Old Testament prophet, David Walker has been traveling the country, urging people to "wake up before it's too late."

But David Walker is no wild-eyed zealot. As Steve Kroft reports, David Walker is an accountant, the nation's top accountant to be exact, the comptroller general of the United States. He has totaled up our government's income, liabilities, and future obligations and concluded the numbers simply don't add up. And he's not alone. Its been called the "dirty little secret everyone in Washington knows" - a set of financial truths so inconvenient that most elected officials don't even want to talk about them, which is exactly why David Walker does.

### [Yen Gains to Three-Month High as Investors Exit the Carry Trade](#)

The yen surged to the highest level in almost three months against the dollar as global stocks extended a slump, prompting investors to unwind riskier investments funded by borrowing in Japan.

The yen rose against all 16 most-active currencies as investors reduced so-called carry trades, in which they borrow cheaply in Japan to buy higher-yielding assets elsewhere. Japan's currency reached its strongest since October against the pound and the most against the euro since November.

### [Yen-carry is an astounding leverage story](#)

All liquidity starts in Japan, the worlds largest creditor country. When rates go up here, rates go up everywhere. Jesper Koll, chief economist for Japan, Merrill Lynch

These nineteen words form the microcosm of the current global stockmarket mayhem.

Jesper Koll was referring to the universal bogey called the yen carry trade.

Its a business where trillions of dollars are involved. Trillions, because nobody on earth has any idea how big a Frankenstein has been been spawned by this vast and prolonged



leverage.

Which brings us to the question, what are yen carry trades?

### [Lawsuits targeting mortgage schemes](#)

Big lenders and Wall Street investors are going after Arizona mortgage brokers, appraisers, real estate agents, title firms and home buyers for fraud.

Dozens of civil lawsuits alleging the gamut of mortgage fraud, from cash-back deals to lying about income on loan documents, have been filed against Valley firms and individuals during the past few months.

Fraud experts and regulators say the lawsuits are only the beginning as the fallout from mortgage fraud starts to hit the Valley. Cash-back scams involve getting a mortgage for more than a home is worth and pocketing the extra money. The deals inflate home values and leave lenders with losses from loans worth far more than the house itself.

"Banks are going to force mortgage brokers to buy back bad loans, and mortgage brokers don't have the money so they are going to go under," said Richard Hagar, a national mortgage and real estate fraud expert with American Home Appraisals based in the Seattle area. "This is the beginning of the wave of lawsuits, lost licenses and criminal indictments in Arizona."

### [Avalanche of Lawsuits](#)

Judging from Morgan's lawsuit vs. Lennar; various recent class action lawsuits against prominent subprime lenders; and "dozens of civil lawsuits alleging the gamut of mortgage fraud, from cash-back deals to lying about income on loan documents" (the latter just in the state of Arizona alone), it is safe to say that a fresh wave of litigation has started.

Things appear to be just as Richard Hagar of American Home Appraisals suggests: "This is the beginning of the wave of lawsuits, lost licenses, and criminal indictments." The key word in that sentence is "beginning." The avalanche has a long way to slide before we can even begin to think it is approaching the bottom of the hill.

### [Subprime woes: How far, how wide](#)

Lending to home owners and buyers without good credit has suddenly become a very bad business, and possibly a very big problem for the U.S. economy as a whole.

The sector is known as subprime mortgages, which pumped \$640 billion into the economy through financing home purchases and refinancings in 2006, according to trade publication Inside B&C Lending. That's nearly twice the level of this kind of lending seen as recently as 2003.

But now with delinquencies and defaults by borrowers rising, experts in the field see

more lenders filing for bankruptcy and a sharp pullback in subprime lending. In addition, banking regulators are proposing tougher lending standards and regulations in the sector.

"Everyone in the subprime sector this year is going to lose money," said Bose George, analyst with Keefe, Bruyette & Woods, a Wall Street firm specializing in banking and finance. "They're getting squeezed on all sides. Going into the year, we were looking for a decline of 15 percent (in subprime lending) but clearly now that is far too low. It's now looking like a 25 to 30 decline."

### [HSBC's record write-off to ruin results](#)

HSBC, Britain's biggest bank, is today expected to stun the stock market by warning that misadventures in the US mortgage market have forced it to write off up to \$11bn (£5.7bn).

The scale of the write-off is likely to overshadow HSBC's announcement of record profits in 2006.

Analysts expect the bank to say it made pre-tax profits of just over £11.5bn last year. The figure is misleading in that while it represents a small decrease on 2005's headline figure of £12bn, the bank reports its annual results in dollar terms. The dollar has fallen sharply against sterling over the past 12 months, so HSBC's expected pre-tax profits of \$22.5bn for 2006, a 6 per cent increase on the previous year, are more impressive than the sterling figure suggests.

Despite the gains, however, chief executive Michael Geoghegan and chairman Stephen Green will face criticism for HSBC's relative performance. The bank's profits have been sluggish compared to UK rivals - Barclays announced a 35 per cent rise two weeks ago - because of a disastrous performance from its US subsidiary HSBC Finance Corporation.

The US business's main problems have been caused by its purchase four years ago of Household, a lender that specialised in loans to borrowers with below-average credit scores. The US sub-prime lending market has been hit hard by bad debt problems, with Household one of the biggest losers.

### [Lehman Cuts Prime Mortgage Lenders on Default Risks](#)

Lehman Brothers Holdings Inc. reduced its investment rating on U.S. mortgage companies including Countrywide Financial Corp. because a surge in loan defaults is showing evidence of spreading beyond the riskiest credits.

Lehman analyst Bruce Harting cut his recommendation for the so-called prime lenders to "neutral" from "positive," and dropped Countrywide, the biggest U.S. mortgage lender, to "equal weight" from "overweight."

Missed payments on loans to the riskiest borrowers are rising as falling home prices make it hard to refinance adjustable-rate loans. New Century Financial Corp., the second-biggest U.S. subprime lender, said March 2 it faces a criminal probe and may need credit-line extensions to stay in business. Fremont General Corp. said it's getting out of subprime lending.



``The rapid high-profile demise of the pure-play subprime lending industry has caused major, real dislocations in the market that should negatively impact the prime-oriented lenders' earnings over the course of 2007," Harting wrote in a research note to clients today. ``Prime loans will see rising default rates as subprime has, due to increasingly weak underwriting in recent vintages."

### [Goldman, Merrill Almost `Junk,' Their Own Traders Say](#)

Goldman Sachs Group Inc., Merrill Lynch & Co. and Morgan Stanley, which earned a record \$24.5 billion in 2006, suddenly have become so speculative that their own traders are valuing the three biggest securities firms as barely more creditworthy than junk bonds.

Prices for credit-default swaps linked to the bonds of the New York investment banks this week traded at levels that equate to debt ratings of Baa2, according to Moody's Investors Service. For Goldman, Morgan Stanley and Merrill that's five levels below the actual Aa3 rating on their senior unsecured notes and two steps above non-investment grade, or junk.

Traders of credit derivatives are more alarmed than stock and bond investors that a slowdown in housing and the global equity market rout have hurt the firms. Merrill since 2005 has financed two mortgage lenders that subsequently failed and bought a third, First Franklin Financial Corp., for \$1.3 billion.

### [Bond default protection shoots up for banks](#)

The cost of insurance against a default by top investment banks Goldman Sachs Group Inc., Merrill Lynch & Co Inc, Lehman Brothers Holdings Inc and Morgan Stanley ballooned this week, amid increased nervousness about their exposure to the shaky subprime lending market.

The trend toward more expensive credit-default swap protection for these four banks began last week and accelerated this week, said Michael Fuhrman, an institutional equities salesman for GFI, an inter-dealer broker for credit derivatives.

"This is a trend across the market," Fuhrman said. "Instruments of broker-dealers and institutions closest to originators of mortgages and those that securitize them have moved the most."

### [New Century's Fate May Depend on Wall Street Funding](#)

The fate of New Century Financial Corp. may rest with securities firms including Morgan Stanley and UBS AG that once staked the U.S. mortgage company to more than \$17 billion and bought its loans by the thousands.

New Century, the Irvine, California-based home lender in default because of losses from bad loans, said March 2 that U.S. prosecutors have begun a criminal probe of accounting errors and trading in its securities. The company also said it may not survive unless

lenders ease terms for providing new financing.

``These credit lines are the lifeblood of subprime mortgage companies," said Vince Arscott, an analyst in the structured- finance division of Fitch Ratings. ``It's really going to be up to the respective credit committees of the banks, whether they want to be exposed to this risk. They may just slowly start to turn off the nozzle."

New Century, led by Chief Executive Officer Brad Morrice, owed \$1.5 billion each to Morgan Stanley and UBS at the end of September. With delinquent home loans rising nationwide, Wall Street firms may scale back or cut off mortgage-company credit. The brokerages financed ``subprime" lenders like New Century to create a steady flow of mortgages that were packaged into AAA- rated bonds and then resold to clients -- a business worth about \$5.6 billion in fees last year.

### [China's debtors not paying up](#)

After more than two decades of rapid development, China has become an economic powerhouse, churning out a huge variety of goods and exporting them to countries all over the world, bringing in hard currency to boost the country's economy.

China's trade totaled US\$157.36 billion in January, up 30.5% year on year. Imports rose 27.5% to \$70.74 billion, and exports increased 33% to \$86.62 billion.

But for Chinese exporters, the reality might be less rosy than what the figures indicate, as they earn much less than booked, facing overdue or default payment of their overseas receivable accounts.

Although the exact amount of overdue accounts receivable overseas is not known, Han Jiaping, director of the credit-management department under the research institute of the Ministry of Commerce, estimated that China has about \$100 billion of accounts receivable overseas and the figure is growing by \$15 billion a year.

Chinese companies' bad-loan ratio is between 5% and 30%, while the average in developed countries is about 0.25-0.5%, according to the People's Daily Online.

### [Lure of Cities Often Ends in Despair](#)

China's rapid development and modernisation has come at a terrible human cost for the country's millions of domestic migrant labourers, who are living in cities in appalling overcrowded conditions and are exposed to dangerous working environments, says a report released Thursday by Amnesty International.

Migrant workers in cities are not eligible for the state health care system and state education and are forced to work long stretches of overtime.

Amnesty International says there are between 150-200 million rural workers who have relocated to cities to find jobs -- in some cities the migrant workers make up the majority of the population.

The discrimination faced by migrant workers stems from the "hukou" (household registration) system which requires all temporary residents to register.

Those workers who complete the difficult process of registering still find themselves facing discrimination in housing, education, health care and finding employment due to their temporary resident status.

Less fortunate migrant labourers, who do not register under the hukou system, find themselves vulnerable to exploitation by the police, landlords and employers.

### [An Ill Wind in Iran](#)

As the dogs of war ominously circle the Persian Gulf, regime change in Iran could become a distinct possibility - but not exactly according to the desires of US Vice President Dick "all options are on the table" Cheney, whose supreme obsessions are oil, war and their mutual intersection.

A leading Western energy consultant, who prefers to remain anonymous, went to Tehran in early February and personally met with President Mahmud Ahmadinejad. He tells Asia Times Online that according to his assessment, Supreme Leader Ayatollah Ali Khamenei "has a couple of months at most - prostate cancer".

On this extremely sensitive matter, he is contradicted by a Western-educated political analyst in Tehran, who for security reasons also prefers to remain anonymous: "There is no consistent proof that Khamenei's cancer is serious and he is dying." In Iranian state media, this topic is taboo.

### [Fierce competition in scramble for Libya's black gold](#)

After 20 years of isolation, Libya has become the destination of choice for hungry oil companies ready to cut any kind of deal to get a piece of the north African state's oil riches.

"It's a race for our black gold," president of the National Oil Company Shukri Ghanem told AFP. "We are organising it like the Olympic Games and may the best one win."

With each subsequent round of concessions, companies from all over the world have been undercutting each other's bids to the barest limits of profitability.

### [Zimbabwe: Fuel price hike sounds death knell](#)

The sharp hike in fuel prices is likely to sound the death knell for most companies, already weighed down by an acute shortage of foreign exchange and key inputs, top economists warned this week.

Economic experts spoke as the pump price of a litre of petrol rose to a staggering Z\$6,500, inflation shot to almost 1,600 percent, and the country electricity shortages woes intensified.

Energy minister Mike Nyambuya was not immediately available for comment. But economist John Robertson said inflationary pressures had pushed up fuel pipeline costs,

such as transportation and storage, resulting in NOCZIM selling fuel products at below procurement costs. The removal of subsidies by Reserve Bank governor Gideon Gono was another reason of the sharp hike in prices.

Robertson said the impact of the fuel price hikes, when fuel was already in very short supply, would have a disastrous impact on the economy and the lives of ordinary Zimbabweans.



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