The Round-Up: March 19th 2007

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LNG beats pipeline

> Treating delta gas as an LNG opportunity is much more attractive than the Mackenzie pipeline option. Maybe the big giants behind the backers -- Exxon Mobil, Conoco Phillips, and Royal Dutch Shell -- fear upsetting their global petroleum, natural gas and LNG apple carts by allowing their Canadian subsidiaries to start playing for the first time outside their Canadian sand boxes. It may be an intolerable horror for these multi-nationals to see delta LNG "washing up" at global LNG terminals, and competing with their own non-Canadian LNG delivered to U.S. and overseas LNG-terminals. Or might marketing delta gas globally snatch away the currently dominant fuel, gas, from the ravenous appetites of oilsands gas-guzzlers, forcing them to consider fuel options other than gas, and risking further delays, because they are also primary holders of Alberta oilsands leases.

Ottawa ponders stake in Mackenzie pipeline

> "If there's that kind of give and take, you might just get a package that could work -- and that way the feds wouldn't be seen as giving something to Esso, they'd be seen as getting something from Esso."
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> Ottawa has taken a close look at Imperial's new cost estimate and has no reason to doubt the numbers, the federal official said. But others are raising questions about the magnitude of the cost escalation in a little over two years.
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> There is also surprise that Imperial has included the $4.9-billion cost of developing the three anchor fields in the Mackenzie Delta as part of the pipeline project. The $16.2-billion figures also includes $3.5-billion for a gas gathering system linking the fields to the pipeline, which would start in Inuvik and cost $7.8-billion.
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> Fred Carmichael, president of the Gwich'in tribal council and chairman of the Aboriginal Pipeline Group, said he believes the costs are inflated to obtain more federal government help.

Alberta says oil sands output to quadruple by 2025

Alberta's production of heavy crude, or bitumen, from its oil sands reserves will more than quadruple by 2025, according to new figures from the province's energy regulator.

Alberta will produce 1.7 billion barrels of bitumen in 2025, or 4.65 million barrels of crude a day, well up from current output of just over one million barrels a day, said Neil McCrank, chairman of the Alberta Energy and Utilities Board.

"We have merely scratched the surface of Alberta's oil sands reserves. Alberta truly has a world-class resource," he said.

Alberta the target in greenhouse war, says CIBC seer

Rubin isn't always right. He's had a few misses along the way. But his candour is refreshing in a country where political doubletalk and vested interests too often stifle honest debate. When it comes slashing Canada's greenhouse gas (GHG) emissions, Rubin utters a simple, irrefutable truth: Alberta, and Albertans, will pay. Big time. Canada's energy province is the bull's-eye.

So too will Saskatchewan, whose falling population means its per capita GGH emissions now rival Alberta's.

Thus, the launch of any domestic carbon trading market will force Alberta's big emitters -- coal-fired power plants and oilsands producers -- to buy credits from provinces that are blessed with clean power. Read: hydro power.

In other words, the cheques will go to Crown-owned utilities in Quebec, Manitoba, British Columbia, Newfoundland and possibly Ontario. Alberta companies like TransAlta, Epcor, Syncrude and Suncor will be the losers.

Dion proposes carbon fees for industrial polluters

Under Dion's proposal, companies that fail to cut their emissions would pay $20 for every ton of carbon emissions over their target. The fines, which would rise to $30 by 2011, would go into a special account to finance green projects.

The companies that went beyond their targets would be able to sell the extra credits they earn to other firms, a proposal that Dion called a "carbon budget."

Dion's climate change plan a 'cash grab': Baird

"I think it falls short," Baird said, suggesting it only targets top emitters of greenhouse gases, while the Conservative plan will establish emissions targets for all industry.

Dion's plan sets out fines for every ton of carbon emissions released above a set threshold. Companies that meet their targets earn credits which they could then sell.

"I am concerned Mr. Dion's plan looks just like a money grab with very little pressure or focus on actual emissions reduction," Baird told reporters on a conference call

Canada's Black Gold

> "Mounting environmental and social costs associated with oilsands activities in particular make it increasingly clear that it would be irresponsible to continue on a `business-as-usual' course," says the Canadian government report advocating the repeal of tax breaks. "It is time to begin the transition to a clean energy future."
>
> Canadian lawmakers will soon decide whether they want to continue the same level of support for the industry. The oil companies, meantime, are responding by committing to apply the latest pollution control equipment to minimize their footprint. Suncor, for example, is working on carbon capture technologies.

Torrid pace of oil patch mergers cools

> Mergers and acquisitions by global oil and gas producers slumped in the second half of last year after a torrid pace in the first half, setting the stage for a "frustrating" 2007, a report from two industry research firms said yesterday.
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> Fuelled by record cash flow and earnings, global oil companies concluded roughly 280 major upstream transactions, worth $166-billion (U.S.) in 2006, said the report from Houston-based John S. Herold and London-based Harrison Lovegrove & Co. Ltd.
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> That's the highest transaction value since the mega-merger year of 1998, although the number of deals fell from 302 in 2005.
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> In a letter to clients, the chief executive officers of the two companies noted that record commodity prices drove M&A activity in the first half of the year, but that the pace of deal making fell off as both crude oil and natural gas prices fell last fall.
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> This year "could be a frustrating year for the industry," wrote Herold CEO Arthur Smith and his counterpart Martin Lovegrove.
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> They forecast that the industry's earnings and cash flow will decline from last year's record levels as costs continue to climb, but commodity prices fail to rise above 2006 levels.

Schwarzenegger, B.C.'s Campbell flex green muscles

> Campbell met with Schwarzenegger for an hour in Los Angeles on Thursday to discuss everything from ways to reduce vehicle emissions, to plans for creating green sea ports.
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> Campbell said he and Schwarzenegger are ready to pursue joint green projects together, regardless of whether they have the backing of their respective federal governments.
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> "California and British Columbia have a chance to act together," Campbell said after the meeting. "I think the governor agrees with me that we don't want to wait for our larger national governments to move on this. We want to do it together."

> One of the projects the two leaders discussed at length is British Columbia's proposed hydrogen highway, planned for 2010. The highway would be lined with hydrogen gas stations, making it attractive for people driving environmentally friendly hydrogen-fuelled cars.
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> The highway would link California to British Columbia.

N.S. renewable energy policy seriously flawed

> In Germany, feed laws have made it the leading producer and market for solar energy. In Nova Scotia, the government fails to acknowledge that feed laws are the best approach.
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> We once had this policy in Nova Scotia. In 1990, a URB ruling that took nearly five years to politically achieve made us a leader in renewable energy policy with one of the world's first feed laws. Sadly, those days are gone. This government is determined that this isn't how it should be done in Nova Scotia anymore.
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> The Nova Scotia approach these days is called Renewable Portfolio Standards (RPSs). It allows Nova Scotia Power to buy wind power or other green energy without a regulatory process controlled by the Utility and Review Board, which would ensure fairness in conditions and price. NSPI simply holds an auction or bidding process to see who can sell it this power at the lowest cost.
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> While great for NSPI, this approach is misguided: Many projects don't get built because the price is too low and there are few societal benefits such as local ownership, jobs, and manufacturing. This lower price paid by NSPI does not translate into lower rates for the consumer, but it does help to ensure healthy corporate profits at the utility.

N.S. gives conditional environmental go-ahead to petrochemical plant

> A proposed $4.5-billion petrochemical plant for northeastern Nova Scotia was given a conditional green light Wednesday by the province's environment minister.
>
> Mark Parent issued an environmental assessment approval to Keltic Petrochemicals to build a plastics plant and a series of liquefied natural gas terminals in Goldboro, N.S., a coastal area known for the beauty of its pristine bay.

Goldboro LNG facility must meet 59 environmental conditions

> Mr. Dunn said the lengthy regulatory process is necessary for the protection of everyone involved, including the immediate community, and it wont impede the development.
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> "Were on track," he said, although he acknowledged that the question of a liquefied gas supply remains an issue.
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> Maple LNG, a consortium of 4Gas of Rotterdam and Russias Suntera, which bought the

liquefied gas rights from Keltic last year, has yet to find an adequate gas supply for the terminal.

Biofuels gather more federal attention

Only in recent days have the ramifications of a serious gas shortage in Ontario, largely the result of a fire that shut down a key part of Imperial Oil's refinery in Nanticoke, stopped reverberating. Stations that were closed for nearly a month are open again and Imperial says the plant is again operating at full capacity.

But the shortage gave Ontario motorists just a taste of what a gasoline shortage might mean -- and just how vulnerable the existing supply might be.

"We've got to stop the addiction from growing," said Peter Tertzakian, an analyst and author of the book "A Thousand Barrels."

"Then, once you get over that, then you have to start thinking about substitution."

Biofuels can be environmental boon, but gas guzzling must first end: Experts

Alternative fuels have been attracting a lot of federal attention - as well as money. Prime Minister Stephen Harper recently announced funding for several green initiatives, including research on hydrogen, fuel cells and "carbon capture" technology that can strip emissions of carbon dioxide.

But before industry and governments start putting too much stock in emerging biofuel technologies, Canadians have to make some fundamental changes, analysts say.

It's very nice to talk about these sorts of biofuels, but the issue of scale is a big one," Tertzakian said. "It's not easy to replicate the very efficient supply chain that's already in place to serve the current pattern of consumption."

Earth has warmest December-February on record

It was the highest average temperature for the period since records began in 1880, the NOAA, said in a report released Thursday.

The report came less than a month after a UN panel said that global warming was almost certainly caused by human activity and several governments and international bodies have sounded the alarm over the need to cut carbon emissions.

The El Nino phenomenon, an abnormal warming of surface ocean waters in the eastern Pacific, contributed to the chart-busting combined global land and ocean surface temperature, the NOAA said.

Collapse of Arctic sea ice 'has reached tipping-point'

A catastrophic collapse of the Arctic sea ice could lead to radical climate changes in the northern hemisphere according to scientists who warn that the rapid melting is at a "tipping point" beyond which it may not recover.

The scientists attribute the loss of some 38,000 square miles of sea ice - an area the size of Alaska - to rising levels of carbon dioxide in the atmosphere as well as to natural variability in Arctic ice.

Ever since satellite measurements of the Arctic sea ice began in 1979, the surface area covered by summer sea ice has retreated from the long-term average. This has increased the rate of coastal erosion from Alaska to Siberia and caused problems for polar bears, which rely on sea ice for hunting seals.

However, in recent years the rate of melting has accelerated and the sea ice is showing signs of not recovering even during the cold, dark months of the Arctic winter. This has led to even less sea ice at the start of the summer melting season.

Antarctic Glaciers' Sloughing Of Ice Has Scientists at a Loss

Although the changes in Greenland appear to be related to global warming, it remains unclear what is causing the glaciers of frigid Antarctica and their "ice streams" to lose ice to the ocean in recent years, the researchers said.

"In Greenland we know there is melting associated with the ice loss, but in Antarctica we don't really know why it's happening," said Duncan Wingham, an author of the review released today in Science magazine. "With so much of the world's ice captured in Antarctica, just the fact that we don't know why this is happening is a cause of some concern."

The Antarctic ice loss, which Wingham said is not caused by melting but rather by the pushing of ice streams into the ocean by several glaciers in the west of the continent, has picked up speed in recent years.

Iceberg Dead Ahead Captain

So what similarities can we draw from the Titanic's voyage? First of all, the Captain was warned well in advance that icebergs lay in their path of travel a half a day before they met up with them. Even though the peak oil theory has been around for 50 years, it has only been in the last 6 or 7 years that petroleum geologists have stepped up and said there's an "iceberg" in our future with enough volume that we could hear. Still there was time to start taking evasive action...... The Titanic's radio room had received reports of large icebergs directly in their path a couple of hours ahead, but they were too busy sending and receiving commercial radio messages for the wealthy passengers aboard, and failed to pass what was a critical message to the officers of the ship. Ships that had shut down in the ice field as darkness approached tried to warn the Titanic, only to be told by the Titanic's radio room to quit bothering them, they were interfering with the "paying" traffic. Similarly, the voice of those warning of peak oil has been ignored by the media, lest it interfere with the paying traffic concerned with where Anna Nicole Smith was to be buried, or what Britney Spears was doing.

From feast to famine: Farewell, easy credit

> HCL Finance Inc., a San Jose, Calif.-based subprime mortgage lender, made a name for itself at the height of the California real estate boom with a signature loan it called the NINJA -- No Income, No Job, No Assets.
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> Distressingly, HCL wasn't alone in offering these and other exotic mortgages to millions of Americans least able to take on debt.
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> How lenders such as HCL got so deeply into the low-brow business of lending to the riskiest home buyers helps explain the spectacular meltdown of the U.S. subprime mortgage market.
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> And if experts are right, worries about the $10-trillion (U.S.) in mortgages out there could soon infect other areas of consumer credit, helping to drag the planet's largest economy closer to recession, along with dependent countries.
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> "This is spreading beyond the subprime market," warns economist Joseph Mason, a former federal bank regular who now teaches finance at Drexel University's LeBow School of Business. "There's starting to be spillover into prime loans."
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> This isn't about failing financial institutions or even foreclosures -- though that is happening. Most experts agree a rationalization of mortgage lenders would probably be a good thing in the long run. The broader concern is that problems in the mortgage market could unleash a classic credit crunch, rippling through the rest of the economy and eventually to Canada. This would dry up the free and easy credit that has fuelled purchases of everything from homes to cars, couches and big-screen TVs.

Canada less exposed to subprime market

> As world financial markets monitor the U.S. subprime slide for possible ripple effects, the Canadian Association of Accredited Mortgage Professionals took pains on Thursday to point out differences in the two markets.
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> In a statement, it said the subprime market makes up 5 per cent or less of all outstanding mortgages in Canada, versus about 20 percent in the United States.

Alt-A: When the real trouble begins

> The ALT-A market is in fact more risky than the Subprime! Why? Because the percentage of these loans is huge compared to the Subprime. Countrywide Mortgage, widely thought of as a "prime" mortgage lender, in fact did nearly half of their business in these "Alt-A" products last year. They push these products hard because they're very, very profitable - when things work out.
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> What's worse is that these products have been pushed as "debt consolidation" loans. "Pay off those high-priced credit cards" scream the ads. Yeah, right, and risk your house!

> But now we've got a problem. House prices are stagnant or actually declining in many places in this country. And these "Option ARMs" have a bomb built into them - they capitalize the unpaid interest back into the loan, raising its principle value. When the interest rate resets, and this is just starting to happen, the effective rate (when computed on the original loan balance) of many of these loans will reach 12%!

Why the subprime bust will spread

> Through mortgage-backed securitization, banks now are mere loan intermediaries that assume no long-term risk on the risky loans they make, which are sold as securitized debt of unbundled levels of risk to institutional investors with varying risk appetite commensurate with their varying need for higher returns. But who are institutional investors? They are mostly pension funds that manage the money the US working public depends on for retirement. In other words, the aggregate retirement assets of the working public are exposed to the risk of the same working public defaulting on their house mortgages.
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> When a homeowner loses his or her home through default of its mortgage, the homeowner will also lose his or her retirement nest egg invested in the securitized mortgage pool, while the banks stay technically solvent. That is the hidden network of linked financial landmines in a housing bubble financed by mortgage-backed securitization to which no one until recently has been paying attention. The bursting of the housing bubble will act as a detonator for a massive pension crisis.

From the Subprime to the Ridiculous

> With the meltdown in the sub-prime mortgage sector now laid bare, many on Wall Street desperately cling to the notion that the pain will be localized. The prevalent delusion is that the overall mortgage, housing and stock markets will be little impacted by the carnage ravaging the sub-prime sector. As such, renewed stock market weakness is seen as an over-reaction and a great buying opportunity. These assumptions represent wishful thinking in the extreme.
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> Those who think that the sub-prime market is unrelated to the broader economy do not understand that the problem is not just the fiscal responsibility of marginal borrowers, but the inherent weakness of the entire U.S. economy. It's just that the sub-prime sector, being one of the most vulnerable spots, is where the problems are first surfacing.
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> Think of the U.S. economy as an unstable dam. The first leaks will be seen in the dam's most vulnerable spot. But there will be many more leaks to follow. Before long the entire dam will collapse. It would be a fatal mistake for those living downstream to assume a leak is an isolated event, unrelated to the integrity of the dam itself. But that is exactly what those on Wall Street are doing with respect the horrific data emanating from the sub-prime market.
>
> The bottom line is that far too many Americas, not simply those with low credit scores, have borrowed more money then they are realistically capable of repaying. The credit boom was created by initially low adjustable rate mortgages, interest only, or negative amortization loans, and an appreciating real estate market that allowed homeowners to extract equity to help make mortgage payments. Now that real estate prices have

stopped rising, and mortgage payments are resetting higher, borrowers can no longer "afford" to make these payments.

[Subprime Foreclosures: The Prisoner's Dilemma]

> After repossession, the lender is the new owner [and] the property is known as a repo home, property repossession, real estate owned property (REO), bank-owned property, foreclosure home, government home, distressed property, repossessed home [or] commercial seized property.
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> "Whatever name the properties have, they all have one thing in common - the new owners want to sell them as quickly as possible, often even if that means selling the repo homes at a price well below their full market value."....
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> ....The best outcome? Game theory says people will screw their peers every chance that they get. In the "prisoner's dilemma", two players can either help or betray each other. The optimum choice is always to turn state's evidence and get early release - assuming, of course, that the other felon plays it straight and doesn't betray you!
>
> In today's real-estate market, just the same problem's at work. For each individual mortgage lender, the need to cover their ass will mean recovering their assets. But for the industry as a whole, it would be better off leaving late-paying home-owners right where they are. Foreclosing and selling en masse will only push real-estate prices lower, faster.

[How banks make more money on foreclosures than on good borrowers]

> Banks make money on foreclosures when the following three conditions apply:
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> 1) The loan is old enough to have made a decent profit in interest: At 6%, the bank will have made back 40% of the loan value in interest payments by the seven year mark. This does not count the fact that they still have controlling interest in the property, which leads me to the second condition…
>
> 2) The loan is young enough to keep the paid off principal on the house within a narrow band of profit that locks out the bidders who would otherwise buy the property when it went to the foreclosure auction. When a property in foreclosure is put on auction "on the courthouse steps". the primary mortgage holder is only allowed to bid up to the remaining principal value of the loan. This helps to ensure that the bank does not take a loss, but also keeps the bank from reaping extra profits if the remaining loan balance is very low. At 6% interest, a 30 year loan will have only paid off 10.5% of the loan at the seven year mark, which is well away from the target resale profits that real estate investors shoot for.
>
> 3) The general value of the house has appreciated somewhat by the seven year mark. Once there is no higher bidder than the bank at the courthouse steps, the primary loan holder is given full ownership of the property, and can sell it at whatever amount the market will bear.

[Loans from Hell]

> The banana peel on which these august figures skidded was subprime mortgage lending. Looking closer, we see that the inside surface was slick with a special kind of mortgage, known institutionally as a 'low documentation' loan...and known colloquially as a 'liar's loan.'
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> As to their ability to pay (and perhaps even as to their name and address) lenders took the borrowers at their word. With no solid incomes to boast about, nor any real assets to wave as collateral before the lenders' turned up noses, the poor borrowers had to fib a little. Yes, they had been employed as a bank president for more than a dozen years. Yes, they owned an oil refinery in central London and were mentioned, briefly, in Howard Hughes' will. No, they called no man a creditor...and yes, they were only borrowing money to buy a house because they didn't want to take any of their own capital out of the high-performance hedge funds in which it was earning 50% per year.
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> Any simpleton could see that 'liars' loans' would be a disaster for someone. But it took a near meltdown in the mortgage market to bring the point home to the geniuses in the financial industry.

[The Global Financial System Is Burning at Both Ends]

> Perhaps the biggest receptacle of this debt speculation, the U.S. mortgage-based securities market, has been struck hard—and it was already disintegrating before the Bank of Japan move and the rise of the yen. As an official of Dresdner Kleinwort bank, which warned clients a month earlier that an explosion could be about to hit the hedge funds from this direction, said on March 2, "We believe 'the great unwind' has now started." As several economists have noted, the uncertainty about how fast this debt will collapse, is caused only by the terra incognita nature of the mortgage securities market, the roughly $30 trillion credit derivatives partly based on it, and the hedge funds which buy, sell, and bet on these debt securities and derivative contracts. These debt markets are opaque: No government, regulator, or market participant knows how concentrated this debt paper is, or who holds it.

[China raises interest rates again to cool economy]

> The yuan has now appreciated about 4.8 percent against the dollar since Beijing revalued it by 2.1 percent and set it free from a dollar peg to float within managed bands in July 2005. It touched a post-revaluation high on Friday.
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> But many economists say the only way to close off the tap of liquidity at the source is to let the yuan strengthen even more so as to make Chinese exports more expensive. That would help ease the swelling trade surplus, which hit a near-record $23.76 billion in February, far more than expected.
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> The central bank, in an effort to keep the yuan stable, buys most of the dollars generated by the surplus, for which it must in turn print yuan, thus flooding the banking system with cash.

> Gao Shanwen, chief economist at Everbright Securities in Shanghai, said he thought the interest rate rise would only exacerbate that problem.
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> "Higher interest rate rises can help slow down investment and domestic consumption. With domestic consumption weakening, more and more goods would have no market at home and have to be exported abroad, which would make the trade surplus even larger," Gao said.

A good use for the IMF: Bail out America

> Using the template of IMF-led rescues of various countries in Asia and Latin America over the past few decades, I imagine below what a proposed rescue of the US could cover, exaggerating only modestly (tongue firmly in cheek for the rest of the article).
>
> The first mandate by the Fund is to ask the US Federal Reserve to raise interest rates by 1,000 basis points (10 percentage points) immediately. While the Fund recognizes that this will throw the economy into a deep recession, it notes that the result would not be worse than what happened to other countries under the IMF program, such as Argentina....

Three Bears, No Goldilocks Part III
When the Levees Broke - A Requiem in Four Acts

> The point here is that when (not if) Financial Armageddon is upon us, don't expect much more from your government than denials of culpability and a shirking of responsibility. Perhaps something like: "I don't think anyone could have foreseen a dollar crash," or "I don't think anyone had any idea that the nation's retirement system was bankrupt," might do.

Energy Interdependence

> Most of the increase we saw in February is the price we're paying for trying to buy energy independence with our corn crop. It's a double whammy, a perfect storm of a too-quick demand on American agricultural resources to pay for decades of unbridled energy consumption and a need by elected officials to prove they're doing something to end our dependence on tenuous Middle Eastern sources of oil.