The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: March 23rd 2007

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Searching for survivors of Spanish flu

> The project is specifically targeting British Columbians, though the researchers would hope to hear from survivors from further afield as well, Dr. Skowronski said.
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> She believes that as well as safeguarding a piece of history, the project could help people contemplating future pandemics to understand how people cope when systems are overwhelmed and survival comes down to individuals helping individuals.
>
> "I think it's really hard for people to appreciate -- and governments in particular -- to appreciate the potential enormity of a pandemic," she said.
>
> "But the basic human capacity to cope, to draw on each other for support -- that hasn't really changed [since 1918]. And so we can really learn, I think, from people and what they have to describe about that."

Natural Gas Has Biggest Gain in 7 Weeks as Oil Prices Increase

> A decline in imports of natural gas from Canada may lead to higher U.S. prices this summer, said Peter Linder, an energy analyst with DeltaOne Capital Partners in Calgary.
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> ``We're going to have the biggest decline in western Canadian production in the history of the industry,'' Linder said. ``There's going to be 400 to 600 million cubic feet a day less production from western Canada in 2007 versus 2006.''
>
> Linder said the combination of falling imports from Canada, the potential for production disruptions from hurricanes, and a tighter supply picture than a year ago will work to keep gas prices in the $9 to $10 per million Btu range this summer.

Producers seek tax explanation

> Companies with oilsands plans in early stages of development want clarification from the federal government about what constitutes "major construction as of March 19" so as not to lose a long-standing tax break that has helped spur the industry's expansion.

In Monday's budget, Ottawa cancelled the accelerated capital cost allowance (ACCA), nixing the break that allowed oilsands players to defer taxation until the cost of capital assets was recovered from project earnings. The allowance, introduced two decades ago to spur investment when oil prices were low, was criticized in recent months as a "subsidy" for Big Oil at a time of robust profits.

Ottawa softened the blow by saying the change would be fully grandfathered for oilsands assets in projects or expansions that "commenced major construction" prior to Monday.

Those falling outside the grandfathering have until 2010 to claim the accelerated capital cost and will then adhere to a phase-out schedule that will gradually lower the capital cost allowance rate from today's 100% to 25% between 2011 and 2015.

Harper's budget spree draws fire in Alberta

Prime Minister Stephen Harper defended his government yesterday against criticism that it has turned into a big spender, saying this week's budget was inflated by a one-time need to share Ottawa's riches with the provinces.

His responses to questions from a hometown Calgary radio station CHQR came as Conservatives fanned out to sell what could be the last budget before an election; one that is also being attacked by three provincial premiers as too stingy.

Mr. Harper said the Conservatives are not overspending and that the handouts to provinces-- $39-billion over seven years -- represent an exceptional and unique expense.

"This is a one-time realignment in transfers to the provinces. It had to be done," he told the radio station, saying it fulfills a Tory election pledge to solve what it called a fiscal imbalance of wealth between Ottawa and the provinces.

Big Three auto makers will take a hit from budget incentives

Federal incentives to encourage a shift from gas-guzzling SUVs to fuel-efficient "green cars" could hurt struggling North American auto makers by keeping some drivers out of the marketplace without significantly boosting sales of gasoline-electric hybrid cars, industry watchers say.

Auto analyst Dennis DesRosiers said Tuesday the government should be concerned with how auto makers might react to its budget plan, which favours hybrid cars with a rebate of up to $2,000 on the purchase but puts a $4,000 tax on SUVs and other vehicles that use high amounts of fuel.

"If I was General Motors, Ford and Chrysler, I'd be real (upset). Right now, these companies are in real sensitive mode in terms of their very survival," Mr. DesRosiers said.

"Key decisions are being made in their head office boardrooms in terms of plans of what to keep open, what plants to close and where to put their investments. And what does the federal government do? They send a bomb - a missile - into these boardrooms saying we're going to put a $4,000 tax on your most profitable vehicles," he said.

Canadian biofuels could stall on clawback: ADM

A Canadian government proposal to claw back biofuel subsidies from profitable processors could backfire and discourage investment in the sector, a vice-president of Archer Daniels Midland said on Wednesday.

The Conservative government announced in its budget on Monday that it would spend C$2 billion ($1.7 billion) over seven years to boost ethanol and biodiesel capacity, including incentives of 20 Canadian cents a liter for producers.

But after three years, those incentives would be clawed back from producers achieving a rate of return of 20 percent or more, although details are still unclear, said Greg Webb, vice-president of public affairs for ADM.

"Our concern is when you start making comments about clawing back and putting rate caps of returns on industries that it may retard or may even discourage the kind of vibrant industry that we all seek," Webb said in a speech to a canola industry conference in Victoria.

Corporate taxes: Breaks targeted only at key groups

The ailing manufacturing industry was handed a break, while the oil sands will lose its prized accelerated write-off for general investments. A new allowance will be phased in to promote green technologies.

The general corporate income tax rate will fall from 21 per cent to 18.5 per cent by 2011, as announced by Finance Minister Jim Flaherty on Hallowe'en, when he attempted to soften the blow of new taxes on income trust distributions.

Battle looms over Kyoto goals as clean-air legislation stalls

Conservative MPs shut down talks on the government's pollution and climate-change legislation after the opposition said it would try to force the bill to include Kyoto Protocol targets for cutting greenhouse-gas emissions.

Meetings scheduled for yesterday were scrapped at the request of Conservatives after the opposition released its proposed amendments to the bill Monday.

MPs on the committee studying the legislation will reconvene tomorrow for what is shaping up as another battle between the opposition and the Conservatives over Canada's Kyoto commitments.

How the discussions play out will determine whether the minority Parliament is able to pass new climate-change legislation.

Nuclear plans may stall on uranium shortage

> Growing global competition for scarce enriched uranium threatens to derail a much-heralded nuclear renaissance in the United States and around the world, says an industry researcher from the Massachusetts Institute of Technology.
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> In a report released yesterday, MIT researcher Thomas Neff said there has been 20 years of under-investment in uranium production and enrichment, resulting in a tightening of supply that has driven prices up eightfold.
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> The shortfall leaves a gap between the potential increase in demand for nuclear energy -- which is particularly strong in Asia -- and the ability to supply fuel for it.
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> "There has been a nuclear-industry myopia; they didn't take a long-term view," Mr. Neff said in his report.
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> In a telephone interview from Cambridge, Mass., the veteran consultant said he has had extensive discussions with utility executives who rely on nuclear power, "and they're getting freaked out."
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> Russia, China and India have each embarked on major nuclear building programs -- Russia alone is planning 20 new reactors -- and that increased demand for enriched uranium will put a tremendous strain on the market.

Global boom in coal power and emissions

> In all, at least 37 nations plan to add coal-fired capacity in the next five years up from the 26 nations that added capacity during the past five years. With Sri Lanka, Laos, and even oil-producing nations like Iran getting set to join the coal-power pack, the world faces the prospect five years from now of having 7,474 coal-fired power plants in 79 countries pumping out 9 billion tons of CO_2 emissions annually out of 31 billion tons from all sources in 2012.
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> "These numbers show how far in the wrong direction the world is poised to go and indicate a lot of private sector investors still don't get it in terms of global warming," says David Hawkins, climate center director of the Natural Resources Defense Council in Washington. "This rapid building of global-warming machines which is what coal-power plants are should be a wakeup call to politicians that we're driving ever faster toward the edge of the cliff."

Orphan drilling delayed

> A pair of exploration wells at the Orphan Basin won't be drilled this year as planned — and some local offshore companies say that's a blow to their business.
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> The partners, including ExxonMobil and Chevron Canada, will delay the next round of deepwater drilling off Newfoundland's northeast coast until 2008 or 2009.
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> That delay will hit the bottom lines of local companies providing supplies and services to the Eirik Raude, one of the biggest drill rigs in the world.

[Williams discovers his inner basenji with Harper]

> Maybe he understands that the reality of the position he is taking is one of fighting for greater dependence on federal handouts rather than promoting genuine self-sufficiency. There's no measure of irony that the guy who accused Liberals of promoting dependence on Mother Ottawa has focused his political energy these past three years on increasing dependence on Mother Ottawa's handouts. Maybe he's figured that out.

[Premier Williams spits nickels]

> The national equalisation program is not and should not be a legitimate substitute for real and sustainable economic development for this province any more than welfare should be a legitimate substitute for a job.
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> Yet this Williams administration would rather fight for more equalisation than make the moves necessary to generate income from the resources we have. Hebron, just as one very small example, has been estimated to provide government revenues of $400-500million per year and thousands of jobs across this province. Out of pique, this government continues to refuse to go back to the negotiating table and to make a deal.
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> And now Premier Williams expects the rest of this country to subsidize his colossal error in judgment and his failure to close this, or any other, economic development deal. Out of pride, he says.

[Equalization changes in summary]

> To respect the Offshore Accords, Nova Scotia and Newfoundland and Labrador may continue to operate under the previous Equalization system until their existing offshore agreements expire. This fulfills and builds upon the Government’s commitment to respect the Offshore Accords and ensures that these provinces will continue to receive the full benefit that they are entitled to under the previous system. These provinces can permanently opt into the new Equalization system at any point in the future.

[Have-not premier buys must-have votes]

> But by turning Quebec's freshly minted equalization billions into election-eve tax-cut promises, Mr.
> Charest has reduced a federal cure for the "fiscal imbalance" to the sordid level of an emergency fix
> for public opinion tilting against his floundering Liberals.
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> Equalization is about creating a similar calibre of essential services spanning Canada's rich and poor
> provinces, ensuring a Confederation where health, education and social safety nets meet a lowest

> common denominator. It is not a national subsidy so have-not premiers can buy must-have votes
> through crass electioneering.
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> Keep in mind that this most desperate of premiers governs a province that debt-finances Canada's
> most unaffordable lifestyle. Yet Mr. Charest diverted the windfall given Quebec in this week's budget
> to a tax cut worth $750 per average Quebec family, buying votes using Ontario, Alberta and B.C.
> currency.

The Loan Shark Lobby

> As its business has exploded--last year subprime loans grew into a $600 billion industry, more than triple the 2002 volume and accounting for one-fifth of all mortgages--the predatory mortgage industry has done its best to make sure Congress wouldn't rein it in, spreading its largesse to Democrats and Republicans: Nearly half of House Financial Services Committee members, including chairman Barney Frank, have received money from New Century Financial Corp., the subprime lender that recently collapsed. Democratic presidential candidates Hillary Clinton and Chris Dodd, head of the Senate Banking Committee, have been some of the largest beneficiaries of the mortgage banking industry, whose dollars have provided a strong incentive for Congress to sit tight and hope the subprime bubble wouldn't burst.
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> But it has. According to the Center for Responsible Lending, one out of five subprime mortgages inked in the past two years will end in foreclosure. The losses are staggering: It is estimated that homeowners will collectively be out $164 billion, with millions of families stripped of their most valuable asset.

Comptroller Says Abusive Loans Fueled Subprime Crisis

> "Abusive" lending and fraud led to a surge in subprime mortgage defaults, a top U.S. bank regulator told senators investigating the subprime mortgage market.
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> The U.S. Office of the Comptroller of the Currency is working to correct lending standards that have slipped, Emory Rushton the agency's senior deputy comptroller, told the Senate Banking Committee in Washington today.
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> "It is clear that some subprime lenders have engaged in abusive practices, and we share the committee's strong concerns about them," Rushton said in prepared testimony. "We are now confronting adverse conditions in the subprime mortgage market, including disturbing but not unpredictable increases in the rates of mortgage delinquencies and foreclosures."

Fed accused of subprime ‘perfect storm’

> Mr Dodd said that US regulators had relaxed guidelines on mortgage lending at

> precisely the point in 2004 and 2005 when the riskiest ARM loans – which impose initially light monthly payments that escalate rapidly at a later date – were growing most rapidly. This also coincided with the start of the Fed's consecutive 17-stage rise in US interest rates.
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> "Despite those warning signals . . . the leadership of the Federal Reserve seemed to encourage the development and use of ARMs that, today, are defaulting and going into foreclosure at record rates," he said.

Fed Says It Could Have Acted Sooner on Subprime Rout

> The Federal Reserve could have acted faster to prevent a meltdown in the subprime-mortgage market by curbing the lax lending standards that contributed to the crisis, the Fed's chief bank supervisor said.
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> ``Given what we know now, yes, we could have done more sooner,'' Roger Cole, the Fed's director of banking supervision and regulation, told the Senate Banking Committee in Washington today, as regulators testified for the first time before Congress on the market rout.
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> Lawmakers called the hearing after growing concern that the deterioration of subprime lending will spread to regular mortgages and even into the broader economy by cutting into consumer spending.

Toxic Waste in the Sub-Prime Market

> In recent times high-profile Wall Street investment banks have brought slick financial reasoning to the base art of loan-sharking. The most vulnerable Americans have been targeted for loans they can ill afford. Those with poor credit histories can be charged at double or treble the interest of a customer in good standing with the rating agencies. By the end of last year housing loans to six million unrated customers 'sub-prime' mortgages totalled $600 billion.
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> Three or four years ago Citigroup, Bear Stearns, Goldman Sachs, Lehman Brothers and HSBC acquired 'sub-prime' lenders ('loan sharks') which they historically regarded with disdain. Citigroup acquired Associates First Capital, and HSBC bought Household Finance, blazing a trail others were to follow. Finance houses have long teamed up with retailers to shower so-called gold and platinum cards on all and sundry with the hope of ratchetin up consumer debt - rising from 110 per cent of personal disposable income in 2002 to 130 per cent in 2006 - and subsequently charging an annual 18 or 20 per cent on money for which the banks are paying four or five per cent. Such hot rates of return gave the banks a taste for seamy lending. They discovered how to limit their own exposure, while raking in the charges, by re-packaging the debts as CDOs (Collateralised Debt Obligations) in which they capture the risk premium while sloughing off the risk.

Dr Kurt Richebächer: An Unprecedented Speculative Spree

> All this confirms that financial conditions remain extraordinarily loose. Even that is a

gross understatement. Credit for financial speculation is available at liberty. Expectations for weaker economic activity only foster greater financial sector leverage. Why such unusually aggressive speculative expansion in the face of a slowing economy?

The apparent explanation is that the financial sector intends to make the greatest possible profit from the coming decline of interest rates, promising further rises in asset prices against falling interest rates. While the real economy slows, the leveraged speculation by the financial fraternity goes into overdrive. Principally, there is nothing new about such speculation. New, however, is its exorbitant scale.

The Coming of the Second Wave

That second wave will strike when massive layoffs occur as the current projects are being completed followed by a decline on a lagging basis of commercial real estate. Already we are seeing an impact in residential construction employment. But do we really need more Walmarts, Pizza Huts, strip malls, nail salons, grocery stores, Home Depots, Lowes, and restaurants that follow? I think not and historically commercial construction follows residential construction with a lag. That lag is anywhere from 8 to 16 months.

Commercial business hires people and lots of them. When that buildout ends, and we are at the beginning of the end now, there is going to be no source of jobs to replace those service sector jobs going forward.

The lush, green forests of today's credit expansion are surely going to go brown

It may be true, as we reported yesterday, that only 15% of subprime loans are in trouble...and that subprime represents only 10% of the mortgage industry. But everything happens at the margin. In a neighborhood of 100 similar houses, each one worth $200,000, if one of them is sold for $150,000 - the value of the entire neighborhood is suddenly marked down. The total implied loss in wealth is $5 million - even though only a single house was sold, and only at a $50,000 discount.

When the most marginal buyers can't get credit, the not-so-marginal sellers can't make a sale. If they can't sell at anticipated prices, the value of their collateral is called into question, so they can't borrow either. Then, the whole structure of credit begins to dry up.

Near panic at the Fed

The new statements show that Fed is supposedly more concerned about inflation and supposedly more concerned about high capacity utilization than in January. Previously they stated "some inflation risks remain", but their "predominant policy concern" now is that "inflation will fail to moderate".

With those concerns the Fed ought to be tightening, at least in theory. Instead the Fed completely dropped the phrase "The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth".

Dropping that phrase shows the Fed is far more concerned over a recession and an implosion in housing than any inflation they are harping about.

Why subprime mortgage crisis may have impact on stocks, lending and spending

Subprime loans carry interest rates two to five percentage points higher than those to borrowers with good credit, so theoretically they offer a high enough return to offset the risks.

"They are bought broadly," said Steve Cochrane, senior economist at Moody's Economy.com, a forecasting service in Pennsylvania. "Many are held by investment banks, hedge funds, international investors of many sorts."
The big question is exactly who holds them.

"Part of the panic the other day when the stock market was tumbling was trying to figure out who's on the hook for these bonds," Low said.

In the coming weeks, some victims of spending sprees in subprime mortgage securities will be revealed as Wall Street firms report financial results.
If major Wall Street firms have to write off billions of dollars in investments, that could further chill the stock market and have repercussions throughout the financial sector.

Margin Debt Hits a Record

The amount of money borrowed from brokerages that do business on the New York Stock Exchange to buy shares rose to a record last month, when the market suffered its biggest rout since 2003.

Margin debt, as the borrowing is called, rose 3.6 percent in February to a second straight monthly record, reaching $295.9 billion. In January, it broke the prior high set at the peak of the so-called Internet bubble in 2000.

Through margin accounts, investors are able to purchase shares on credit.

Global Ruling Class: Billionaires and How They “Made It”

Among the newest, youngest and fastest-growing group of billionaires, the Russian oligarchy stands out for its most rapacious beginnings. Over two-thirds (67%) of the current Russian billionaire oligarchs began their concentration of wealth in their mid to early twenties. During the infamous decade of the 1990’s under the quasi-dictatorial rule of Boris Yeltsin and his US-directed economic advisers, Anatoly Chubais and Yegor Gaidar the entire Russian economy was put up for sale for a ‘political price’, which was far below its real value. Without exception, the transfers of property were achieved through gangster tactics -- assassinations, massive theft, and seizure of state resources, illicit stock manipulation and buyouts. The future billionaires stripped the Russian state of over a trillion dollars worth of factories, transport, oil, gas, iron, coal and other formerly state-owned resources.

Brazilians Oppose Bush-Lula Ethanol Pact

All of these actions were to protest the model of economic growth via industrialized agriculture for export. The social movements and their supporters in civil society assert that while Brazil's agroexport boom may boost Brazil's GDP, it is increasing poverty and marginalization for the rural poor due to land concentration, environmental destruction, unemployment and labor exploitation. According to the Via Campesina press statement, for every 100 hectares planted to sugarcane (from which Brazilian ethanol is produced) only one job is generated, while on a family farm 35 jobs are generated. In Brazil, agribusiness is controlled by a handful of multinational corporations that are usurping more and more Brazilian territory, and expelling more rural poor to the already-swollen urban centers.

The occupations' organizers were careful to highlight that their critique is not of ethanol itself, but with the paradigm being imposed on the industry large scale, industrialized production for export to the Global North (especially the US), entirely controlled by multinational agribusiness corporations.

Bush Paves the Way for Martial Law: 2007 National Defense Authorization Act overturns Posse Comitatus Act

Bush has modified the main exemptions to posse comitatus that up to now have been primarily defined by the Insurrection Act of 1807. Previously the president could call out the army in the United States only in cases of insurrection or conditions where "rebellion against the authority of the United States, make it impracticable to enforce the laws of the United States in any State or Territory by the ordinary course of judicial proceedings." Under the new law the president can use the military in response to a natural disaster, a disease outbreak, a terrorist attack or "other condition in which the President determines that domestic violence has occurred to the extent that state officials cannot maintain public order."

The new law requires the President to notify Congress "as soon as practicable after the determination and every 14 days thereafter during the duration of the exercise of the authority." However Bush, as he has often done during his presidency, modified this requirement in his signing statement, which declared, "The executive branch shall construe such provisions in a manner consistent with the President's constitutional authority to withhold information the disclosure of which could impair foreign relations, the national security, the deliberative processes of the Executive." In other words, Bush claims that he does not even need to inform Congress that martial law has been declared!

Southern Ocean current faces slowdown threat

The impact of global warming on the vast Southern Ocean around Antarctica is starting to pose a threat to ocean currents that distribute heat around the world, Australian scientists say, citing new deep-water data.

> Melting ice-sheets and glaciers in Antarctica are releasing fresh water, interfering with the formation of dense "bottom water," which sinks 4-5 kilometers to the ocean floor and helps drive the world's ocean circulation system.
> A slowdown in the system known as "overturning circulation" would affect the way the ocean, which absorbs 85 percent of atmospheric heat, carries heat around the globe.
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> "If the water gets fresh enough ... then it won't matter how much ice we form, we won't be able to make this water cold and salty enough to sink," said Steve Rintoul, a senior scientist at the Australian government-funded CSIRO Marine Science.
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> "Changes would be felt ... around the globe," said Rintoul, who recently led a multinational team of scientists on an expedition to sample deep-basin water south of Western Australia to the Antarctic.

Forced to Look Beyond Desalination Plants

> A World Bank report released early March warns countries in the Gulf and the Middle East that by 2050 per capita water availability in the region will reduce by half. The “social, economic and budgetary consequences could be enormous" if governments do not accelerate reforms to deal with water scarcity, the report said.