



The Round-Up: April 3rd 2007

Posted by [Stoneleigh](#) on April 3, 2007 - 11:51am in [The Oil Drum: Canada](#)

Topic: [Site news](#)

Tags: [climate change](#), [coalbed methane](#), [environment](#), [foreclosure](#), [housing market](#), [income trusts](#), [oil sands](#), [subprime loans](#), [taxation](#), [tilma](#) [[list all tags](#)]

[Trust bounty slips away](#)

Most income trusts that have sold themselves -- since Ottawa decided to increase taxes on these investments to stem tax leakage -- have ended up in the hands of entities that don't pay Canadian taxes.

Twelve income trust deals with a total enterprise value of \$7.3-billion, including yesterday's proposed sale of KCP Income Fund, are pending or have closed since the end of October. Nine of these transactions, worth \$5.76-billion, are set to end up in the hands of foreign private equity shops, foreign corporations, Canadian private equity or Canadian pension funds -- all outfits that don't pay taxes into Ottawa's coffers. The findings were made by Chris Rankin, an analyst at Canaccord Adams....

..."We're seeing cash flow moving from taxable Canadian investors' hands to offshore investors and non-taxable hands," said Sandy McIntyre, a fund manager at Sentry Select Capital Corp.

[U.S. buyer rescues KCP from trust tax burden](#)

KCP, like other trusts, saw its units plunge after the federal government's announcement last Halloween that it will begin to tax income trusts like corporations....

...Mr. Cynamon said Ottawa clearly didn't realize what pressures it was placing on trusts when it sprang the new taxation rules on them.

"We had a very good platform in the income trust world that allowed companies like ours to stay really Canadian, to pay distributions to Canadians, to bank in Canada," he said. "A lot of that is going to go away, since most of the private equity firms [that are buying trusts] are outside of Canada."

[Trust buyouts not my fault, Flaherty says](#)

Income trusts are being sold at an increasing rate, largely to foreigners and private equity players, but Finance Minister Jim Flaherty rejects the charge by critics that the Harper government's controversial income trust tax is in some way to blame.

"This is not something that has to do with a particular tax policy," he said yesterday during a visit to London to promote his 2007 federal budget.

"It has to do with large pools of capital that have been accumulated and are looking for purchases in various parts of the world."

Yesterday, KCP Income Fund revealed it is being taken out by an American private equity group for \$804-million, including debt. The KCP deal marks the 12th takeover that has been announced or proposed in the five months since Halloween, excluding any sales processes that were already in progress by that day, according to Deloitte & Touche.

[Shell to buy out remaining minority Canadian investors](#)

Royal Dutch Shell PLC has won the right to buy out the remaining minority shareholders in its Canadian unit, after securing more than 90% of the outstanding shares in an extended share offer, the oil major said on yesterday. Shell Canada Ltd. shareholders holding 94.5% of the shares Shell did not already own tendered their shares at the offer price of \$45 per share by the end of the extended offer period on March 30, Shell said.

The result represents a defeat for those shareholders, including many hedge funds that had hoped Shell would make a higher offer. In October, Hague-based Shell made a \$40 per share offer for the 22% of Shell Canada it did not already own and in January increased this to \$45 per share, valuing the minority stake at \$8.7-billion. Just over half the minority shareholders accepted this by the end of the first offer period on March 17, and the offer was extended.

Shell Canada is a leader in oil production from bitumen-soaked sand deposits, a resource Shell is betting on to help it turnaround a disappointing record in recent years at adding new reserves.

[Flaherty touts Canada's finances, energy wealth](#)

For years, Canadian finance ministers would pass a budget and travel abroad in search of foreign loans to pay for the country's expenses -- but not any more.

On Monday, Finance Minister Jim Flaherty was in London to promote Canada's success in balancing its books while heralding the country as "an emerging energy superpower."

[Foreign banks drawn by energy](#)

Foreign banks are lining up to open shop in Canada, a study said yesterday, lured by a healthy economy and the prospect of lending to the country's booming energy sector.

In an annual review of Canada's banking industry, Pricewaterhouse-Coopers said the country's bank regulator, the Office of the Superintendent of Financial Institutions (OSFI), was getting more applications for new banks than "ever before."

[Alberta-B.C. pact knocks down trade barriers](#)

When Brian Mulroney won the 1988 federal election, Canadians likely thought they were finished with roiling debates over free trade.

But a new agreement that comes into effect today is stoking many of the same passions, this time about interprovincial trade.

The Trade, Investment and Labour Mobility Agreement, known as TILMA, is an attempt to standardize everything - from professional and trade certifications to tenders for public contracts and trucking guidelines - between British Columbia and Alberta.

Its proponents say it is a template for the rest of the country. They argue it will make the region a national powerhouse, responsible for more than 28 per cent of Canada's GDP. A recent Conference Board of Canada report said the deal will create \$4.8 billion in gross domestic product and generate 78,000 jobs in B.C. alone.

But critics say TILMA was negotiated and signed in secret and will limit local governments' ability to govern on behalf of their citizens....

....Companies or individuals who believe a government policy "restricts or impairs" trade, investment or labour mobility can sue. A NAFTA-like independent panel will be set up to adjudicate disputes and impose awards as high as \$5 million for breaches of the agreement.

[Alberta, B.C. court Ontario for trade deal](#)

The government of Prime Minister Stephen Harper called the deal "the most comprehensive of its type in Canadian history" and said it was committed to working with provinces to see how TILMA could be applied more broadly.

Concerned citizens say TILMA goes too far, arguing it robs democratically elected bodies from the ability to make laws. Ellen Gould, a researcher for the Canadian Centre for Policy Alternatives, said labour already moves freely between Alberta, B.C. and other provinces.

"No one has ever said you can't have any obstacles to business in a trade agreement," Ms. Gould said, adding that TILMA is "too big of a restraint on governments, even pro-business governments. . . . It's unprecedented. Alberta and B.C. will be the most unregulated jurisdictions in the [developed world]."

Ms. Gould predicted TILMA would have a far-reaching hand, citing the town of Okotoks, just south of Calgary, one of the fastest-growing places in Canada. Okotoks has put a cap on its population to protect its water supply and its infrastructure. She said Okotoks will find it difficult to protect itself under TILMA.

[Climate change, rising oil prices imperil B.C. food supply: report](#)

The agricultural industry's reliance on fossil fuels for irrigation, processing, harvesting, refrigeration, transport and the production of fertilizer means that as the world's oil supply wanes and fuel prices spike, we should not expect to be eating Chilean grapes and Mexican lettuce in a few years, according to Vancouver architect and planner Rick Balfour.

Balfour, who obtained the ministry report through Freedom of Information legislation, envisions a near-future in which virtually everything we eat will have to be produced locally.

Balfour, who served as chairman of the Vancouver Planning Commission until last week, has organized "war games" sessions for planning and futurist conferences in which people try to work out how societies and economies reorganize as a result of oil price shock.

The "re-ruralization" of the suburbs -- tearing up low-density neighbourhoods to grow crops -- is a typical scenario, he said.

"This report speaks to that very issue and it was being buried by the government," Balfour said. "It took six months to get a 20-page report that asks the question, 'When we can't afford to ship our food from Chile and California, what are we going to do?'"

[Majority favour a new green tax](#)

More than three-quarters of Canadians believe the country's environmental regulations are too weak, while nearly 60 per cent of the population would favour a new green tax on consumer and industrial products to crack down on pollution, a new government study has concluded.

The statistics, included in an Environment Canada public opinion survey, come as the minority Conservative government and opposition parties face-off over whether to beef up legislation on air pollution and climate change that was tabled last fall.

[Coalbed gas ignites battle](#)

The battle over ownership of coalbed methane found on non-Crown lands in Alberta gained momentum yesterday as two camps prepared to act on a new ruling for the resource.

The decision by the Alberta Energy and Utilities Board, released Wednesday, frees companies to develop coalbed methane in disputed areas, but doesn't close the door on existing lawsuits over mineral resources on non-Crown lands.

Companies with mineral rights to coal beds argue the methane gas embedded in the ore should belong to them, while the other camp argues the methane should be considered natural gas with separate drilling rights.

"We'd like to see the owners of natural gas rights be able to develop the natural gas from these coals without any thought for the tenure of ownership," Michael Gatens of the Canadian Society of Unconventional Gas said yesterday.

Last fall, the EUB issued a moratorium on drilling on freehold land pending resolution of a dispute initiated by EnCana and Carbon Development Partnership.

[Husky gets nod for major White Rose expansion](#)

The government of Newfoundland and Labrador has approved a major expansion of Husky Energy Inc.'s White Rose offshore oil field.

The province said yesterday it will allow White Rose to produce as much as 137,000 barrels of oil a day, up from a previous authorization of 100,000 barrels. Husky believes it has more oil at White Rose than originally envisaged and both production rates were set at levels to maximize overall long-term output.

The application was filed last September, along with a second application for White Rose that is still awaiting approval. Husky, based in Calgary, wants to connect what is known as White Rose South with the main offshore production vessel at White Rose.

[Natives hold key to Ontario power](#)

Native leaders are sharply divided over a proposed transmission link that would import electricity from Manitoba to power-hungry Ontario, potentially throwing a wrench into the Harper government's green plan.

Prime Minister Stephen Harper has earmarked \$586-million of the \$1.5-billion Canada EcoTrust Fund to help Ontario reduce greenhouse-gas emissions and fight climate change by building the so-called east-west link. Manitoba has an abundance of hydroelectric power, so the grid could supply Ontario with a clean source of power and help the province phase out its pollution-spewing coal plants. But the link cannot go ahead without the support of native communities in Northern Ontario because it would run through their traditional territories.

Native leaders in 19 of the 49 Northern Ontario reserves represented by the Nishnawbe-Aski Nation agreed late Thursday night to have their communities push ahead with the project and seek an ownership interest in it. But leaders of the remaining 30 communities said they could not throw their support behind the project until the Ontario government outlines its stand on broader economic development issues.

They want a revenue-sharing agreement with the government and a commitment on how the grid can become a springboard for other economic development initiatives.

[A radioactive asset](#)

This is the moment Atomic Energy of Canada Ltd. has been waiting for. After a two-decade slump in North American demand following the Three Mile Island and Chernobyl disasters, the nuclear industry is poised for growth. The Crown corporation's huge Candu reactors have a proven track record, and the phrase "on time, on budget" is splattered across AECL's promotional literature. The company has delivered six Candus to customers in Romania, China and elsewhere in the past 11 years, all built on or ahead

of schedule, and on or under budget-an amazing feat in an industry with a gruesome history of cost overruns. AECL boasts the "strongest project management delivery capability of any nuclear vendor in the world."

Too bad the claim isn't entirely true. AECL has also developed Maple mini-reactors, which are about the size of an office chair and make isotopes for medical imaging, diagnosis and radiation therapy. This looked like a very promising market in the 1990s, but you don't hear much about the wee Maples these days-and for good reason. They don't work, or at least they don't work well yet. In 2005, the Canadian Nuclear Safety Commission renewed the operating licence of the Maples, but said they came in "below requirements" in three areas-operating performance, quality assurance and environmental protection. In a report published last year, the commission said the first two Maples, which were completed by 2000, had a flaw that "has an undesirable impact on safety."

[Russia eyes nuclear power co-operation with Canada](#)

Russia's nuclear energy agency is looking to forge a partnership with Atomic Energy of Canada Ltd. to develop the next generation of reactors, as part of the country's effort to become a global leader in the nuclear power industry.

Russia has one of the world's most ambitious nuclear programs, both for its domestic market and in international sales, and it is looking to AECL to collaborate on a new generation of high-efficiency reactors.

[Not in my bedrock](#)

"Southern Ontario tends to think nuclear waste is not a problem," says Greenpeace Canada's energy co-ordinator, Dave Martin. "But there's a very good chance a nuclear-waste dump could end up in your backyard."

Why not? Ontario generates more than 90 per cent of the high-level radioactive waste in this country.

About half our electricity comes from nuclear power plants -- one of which, Pickering, is right next door. And "existing facilities tend to become sacrifice areas," Mr. Martin says. "If you have one kind of dirty development, it tends to attract other dirty developments."

Right now, Ontario is sitting on about 30,000 tonnes of nuclear waste stored at the three plants. That could double, if the Ontario Liberals go ahead with their plan to spend \$40-billion building new nuclear plants and refurbishing old ones. As they see it, that would solve our electricity and climate-change woes in one shot, because proponents of nuclear power say it's carbon-neutral. "The industry argues that with nuclear power, the waste is contained -- it's not punked out into the atmosphere," Mr. Martin says. "The problem is that it's around for a million years."

As it stands, Ontario's three nuclear facilities -- at Kincardine, Darlington and Pickering -- house the spent-fuel canisters they produce in huge pools for roughly 10 years, before transferring them to steel-and-concrete containers. But those will last, at the maximum, 100 years. And then you have to find something new to do with them.

Why consider Toronto among other Southern Ontario cities? It all has to do with a new way of thinking about how to deal with the waste. Canada, like every nuclear-power-sucking nation in the world, is struggling with that question. The answer, according to the NWMO, is deep-geological deposits.

[Nuclear-powered oil sands](#)

"They use energy to recover the material and to process the material," Collins said, adding future technologies may turn some waste products from today's sands process to an energy feedstock for operations. Nuclear plants, despite being more capital intensive to build, may take natural gas's place. And Canada's nearby uranium reserves, some of the largest and richest in the world, could be processed and be ready fuel.

"Nuclear power plants can address several issues," Collins said. "You could try to reduce the amount of (carbon dioxide) emissions because you don't have to burn as much hydrocarbons, i.e., natural gas, to generate the steam and electricity or to create hydrogen that can be used in the upgrading processes.

"And you'd have a near zero emitter from a nuclear power plant. So that's the clean-energy side of it."

The World Nuclear Association estimates natural gas is 60 percent of an oil-sands facility's operating costs.

[Canada wary of nuclear power for oil sands](#)

In a report on the sustainable development of the oil sands released this week, Parliament's natural resources committee steered clear of making a decision on using nuclear energy before the impact of placing the plants near oil sands projects are known.

Production from Canada's oil sands, the world's second-largest storehouse of petroleum, is forecast to triple by 2015 to 3 million barrels a day.

At least one Alberta company has touted building a C\$5.5 billion (\$4.7 billion) nuclear plant in the oil sands region to generate steam and electricity, both key to the process that separates tar-like bitumen from the sand.

Energy Alberta Corp. wants to put a Canadian-designed Candu twin-reactor plant in the region by 2016. The steam produced by the facility would be piped to thermal oil sands producers, who could pump it into the ground to liquefy the bitumen.

The electricity produced could replace natural gas-fired generation plants, cutting emissions of carbon dioxide.

However, the committee report said that steam could only be piped up to 25 km (16 miles), while a 600 megawatt reactor would be capable of supplying an upgrader that produces about 60,000 barrels of synthetic crude oil a day.

It concluded that almost 20 nuclear reactors would be needed just to meet the production growth planned to 2015.

[Coalition fights latest oilsands project](#)

A coalition of environmental groups has launched legal action in Canada's Federal Court to try to overturn recent regulatory approval of Imperial Oil's (TSX:IMO) massive Kearl Oil Sands project in northern Alberta. The groups, led by Sierra Legal, say the joint federal-Alberta regulatory panel "failed to do its job" when it gave conditional approval to the \$7-billion Kearl open-pit mine late last month.

They argue that a full environmental review must take place before the federal government can decide whether the project should proceed. "The panel's conclusion that a strip mine the size of 20,000 football fields with toxic sludge-filled tailings ponds visible from space will have no significant environmental effects makes a mockery of Canada's environmental assessment process," said Stephen Hazell of Sierra Club of Canada.

[Oil Sands Truth: Shut down the Tar Sands](#)

Oil Sands Truth exists to disseminate information regarding the environmental, social and economic impacts of tar sands development projects being proposed and currently in progress. Oilsandstruth.org holds the view that nothing short of a full shut down of all related projects in all corners of North America can realistically tackle climate change and environmental despoliation.

[Mortgage crisis to hit holders of risky derivatives](#)

So who ultimately holds the risk?

Most experts say it's almost impossible to know. Sales teams at investment banks and other firms that offered CDOs won't talk and no one else contacted by MarketWatch has kept track. The Federal Deposit Insurance Corporation, which monitors risk in the banking system, tracks holdings of MBS, but not the different tranches. It has no information on who holds CDOs.

[As foreclosures rise, scam artists flourish](#)

As risky mortgage loans fuel a rise in foreclosures, scam artists are targeting struggling U.S. homeowners, promising a quick bailout but ultimately stripping the properties of their value or owning the homes outright.

So-called "foreclosure rescue" and equity-skimming scams have been around for years, but they've proliferated over the last five years as the U.S. housing boom took off, experts said. The market cool-down hasn't hurt business, either. Tens of thousands of homeowners with shaky credit are reeling after interest on their sub-prime adjustable-rate mortgages increased, requiring higher payments. Many are turning to foreclosures, giving con artists an even larger audience.

[Bernanke: Widespread access to credit not always good](#)

Bernanke's comments came as he talked about a decades-old law, called the Community Reinvestment Act, that aims to make sure that banks serve all their customers, including those in low- and moderate-income communities.

The Fed chief said the law, enacted in 1977, has produced some benefits, including helping to bolster homeownership rates among the poor, "but the results are not uniform."

The law doesn't apply to lenders that aren't banks, many of which are responsible for providing certain risky mortgages to people with low incomes and blemished credit histories.

"Recent problems in mortgage markets illustrate that an underlying assumption of the CRA that more lending equals better outcomes for local communities may not always hold," Bernanke said at a Federal Reserve conference. "Whether, and if so, how to try to differentiate 'good' from 'bad' lending in the CRA context is an issue that is likely to challenge us for some time."

[After Financing the Housing Boom, Wall Street Shuts Off the Spigot](#)

By extending generous credit to subprime lenders, Wall Street firms financed the borrowing binge that helped fuel the housing boom. Those firms now are turning off the money spigot. They see more borrowers having trouble paying off those mortgages in a slowing economy, which has made investors less willing to pour money into the sector.

More than two dozen subprime mortgage lenders have closed shop, and there is concern that the defaults could spread to other types of risky loans and to less-risky mortgages, exacerbating the housing market's slowdown and possibly weighing on the economy.

[The Battle for a Mortgage](#)

"About three weeks ago, I would have gotten this done by snapping my fingers," said Mr. Eisenberg, who is the executive vice president of the EFI Capital Corporation, a mortgage brokerage based in Garden City, N.Y. "Now it's a very lengthy and time-consuming process where every bit of paperwork has to be done to the T. The guidelines are literally changing every hour."

Until recently, many New Yorkers found it fairly easy to get mortgages. Then banks that made loans to subprime borrowers started running into trouble when the borrowers found it impossible to pay their mortgages and fell into foreclosure. As a result, banks have cut back on all types of loans.

Nationally, indicators show that the real estate market is in turmoil. A report issued on March 23 by the National Association of Realtors said that existing home sales in February 2007 jumped 3.9 percent from the month before but were 3.6 percent lower than the same month the year before. A report issued on March 26 by the Commerce Department said that new home sales in February dropped by 18.3 percent from the

year before, to a seven-year low.

In any case, lenders who are experiencing an increase in foreclosures are tightening standards on mortgages across the board.

[Banks sue sub-prime lenders in debt blitz](#)

CREDIT Suisse has filed lawsuits against at least three US sub-prime mortgage lenders, marking an escalation of efforts by Wall Street banks to use legal action to purge themselves of bad housing loans. DLJ Mortgage Capital, a unit of Credit Suisse, is separately suing the three mortgage companies for more than \$US30 million (\$37 million), claiming the lenders failed to honour obligations relating to loans that it purchased from them.

EMC Mortgage Corp, a unit of Bear Stearns, has filed at least one \$US70 million lawsuit against a lender. Other suits are expected. The legal action comes as Wall Street seeks to limit damage from the sub-prime collapse.

Banks including Credit Suisse, Bear Stearns and Lehman Brothers helped fuel the boom in sub-prime lending, providing billions of dollars to lenders as they bought mortgage loans to sell to yield-hungry investors. In recent months, amid a spike in payment problems, banks have cut off credit and demanded that lenders buy back soured loans. That has helped drive many lenders, including ResMae Mortgage Corp and Ownit Mortgage, into bankruptcy and pushed others such as New Century Financial to the point where they are unable to issue any new loans. The coming wave of lawsuits is expected to threaten other sub-prime companies.

[Fed Risks Moral Hazard as Housing Market Melts](#)

The hangover from that borrowing binge is beginning to hurt. Evidence is building that the U.S. economy is slowing sufficiently to warrant a soothing reduction in interest rates from the Federal Reserve. That poses an interesting dilemma for Fed Chairman Ben Bernanke.

Cut too soon, and he will stand accused of ignoring inflation in an attempt to rescue the housing market. Leave it too late, and he risks tainting his second anniversary at the helm of the world's biggest economy by overseeing a recession.

All four legs of the U.S. housing market are wobbling precariously. The mortgage lenders who funded the boom are going bust or shutting up shop. The homebuilders who slapped together the bricks and mortar are seeing their earnings plummet. The financial alchemy used to repackage home loans into tradable securities is starting to unravel.

American Nightmare?

[Brzezinski: Avoid disaster with Iran](#)

In the remaining 20 months of the Bush administration, America's leaders have to avoid the sort of "spontaneous combustion" that could produce a disastrous escalation of the

country's Middle East military conflicts, a former national security adviser said at Duke University on Wednesday.

Specifically, the country has to avoid getting into an armed conflict with longtime nemesis Iran, said Zbigniew Brzezinski, who was President Jimmy Carter's top adviser on foreign affairs throughout Carter's four years in office, including the 444-day Iranian hostage crisis.

"If the war is enlarged in the next 20 months to include Iran -- if that happens -- for the next 20 years the United States is going to be bogged down in a war which spans Iraq, Iran, Afghanistan and Pakistan, and then you can forget about American global leadership," he said.

[Climate forecast grim for Canada](#)

This grim regional picture is contained in the second report this year from the Intergovernmental Panel on Climate Change, to be published Friday.

The report summarizes the probable effects on people and the environment arising from the increase of 2 to 3 degrees C in average temperatures by 2050 forecast in the panel's first climate science study released in February.

The scientists conclude that the temperature-spurred shift of plants and animals northward and to higher altitudes "is likely to rearrange the map of North American ecosystems."

They also caution that climate change will hit hardest at specific groups in Canada and the U.S., like the urban poor and elderly, aboriginals and resource-dependent communities, such as lumber towns.

[Apriarists buzzing about soaring rate of honeybee deaths](#)

Honeybees in southwestern Ontario have been dropping like flies this winter -- potentially threatening honey production and some of the estimated \$5-billion in fruit and other crops across Canada that depend on the insects for pollination.

There also is talk in beekeeping circles of suspiciously high honeybee losses in British Columbia, Alberta and Saskatchewan.

However, commercial beekeepers and government officials in Ontario are not yet ready to concede that the unusually high winter mortality rate -- nearly three times the average -- may stem from the same mysterious syndrome dubbed colony collapse disorder (CCD) that is devastating honeybee populations in 24 U.S. states, with some losses running as high as 90 per cent.

[Flowers and fruit crops facing disaster as disease kills off bees](#)

The losses are the result of either Colony Collapse Disorder (CCD), a disease that has

already decimated bee populations in the US and parts of Europe, or a new, resistant form of Varroa destructor, a parasite that attacks bees.

Experts fear that, because honeybees are responsible for 80 per cent of all pollination as they collect nectar for the hive, there could be severe ecological problems with flowers, fruit and crops failing to grow.

The pollination carried out by bees is worth £200 million to Britain's farmers each year. However, the total contribution by bees to the economy, including profits made from the sales of food, is up to £1 billion.

In London, about 4,000 hives — two-thirds of the bee colonies in the capital — are estimated to have died this winter.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](http://creativecommons.org/licenses/by-sa/3.0/).