# The Round-Up: July 11th 2007

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Wall Street's ratings agencies are starting to abandon their efforts to hide the real market value of the debts that are ironically still marked as assets in the books of countless institutional investors. To say unpleasant surprises will be revealed would be a tragic understatement. Credit markets are tightening in anticipation, and spreads are set to widen dramatically.

Hedge funds and banks are heavily exposed to the derivatives market, and losses will be colossal and widespread. Increasingly, pension funds look to be the biggest losers of all. The key-word will be 'leverage' - cheap credit borrowed to make 'easy' profits, that will now lead to hard losses.

On the energy scene, Americans are concerned about rising costs, labour constraints and environmental issues in the Alberta oil sands. Combined with increasing Canadian domestic energy demand, this could reduce energy exports to the US just as it was looking to Canada to fill its looming energy supply gap.

Resource ownership and control in Canada continue to be hot issues at the national, provincial, and territorial levels. Alberta looks to carbon trading and Ontario will have to get through a hot summer with a reduced electricity supply.

S&P May Cut $12 Billion of Subprime Mortgage Bonds

> Standard & Poor's said it may cut the credit ratings on $12 billion of bonds backed by subprime mortgages, prompting investors to dump the securities....
>
> ...."S&P's actions are going to force a lot more people to come to Jesus," said Christopher Whalen, an analyst at Institutional Risk Analytics in Hawthorne, California. **"When a ratings agency puts a whole class on watch, it will force all the credit officers to get off their butts and reevaluate everything. This could be one of the triggers we've been waiting for."** (emphasis added)

S&P finally says subprime is mostly junk

> S&P, one of the three main credit-rating agencies that served as enablers of the subprime-mortgage boom, announced Tuesday that it would lower its ratings on 612 bonds, a small portion of the mortgage-backed securities it had given its seal of approval to.
>
> But the bigger news is that S&P isn't going along with the charade anymore. S&P said it would change its methodology for rating hundreds of billions of dollars in residential-

> mortgage-backed securities. And it would review its ratings on hundreds of billions of dollars in the more complex collateralized debt obligations based on those subprime loans.
> **A lot of debt will be downgraded to junk status. A lot of that debt will have to be sold at fire-sale prices. A lot of pension funds and hedge funds that once thrived on the high returns they could get from investing in subprime junk will now lose a lot of money.** (emphasis added)

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[More Ratings News: Moody's Downgrades 399]

> Moody's Investors Service today announced negative rating actions on 431 securities originated in 2006 and backed by subprime first lien mortgage loans. The negative rating actions affect securities with an original face value of over $5.2 billion, representing 1.2% of the dollar volume and 6.8% of the securities rated by Moody's in 2006 that were backed by subprime first lien loans.
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> Of the 431 rating actions taken today, Moody's downgraded 399 securities and placed an additional 32 securities on review for possible downgrade. One of the downgraded securities remains on review for possible further downgrade.

[The Dash for Cash Goes Global]

> Get cash at any price. It's just not as cheap anymore – and it might be about to become yet more expensive. A friend with less money than gold was last week offered a 90-day deposit paying 8% per annum. US private-equity giant KKR now says it wants to float on the stock market after failing to raise leveraged finance in the bond market. The perceived risk of holding European corporate debt is shooting higher, according to the cost of buying credit default swaps....
>
> ....In short, as John Dizard notes in the Financial Times , "we are in a liquidation phase for subprime housing debt...Not 'the' liquidation phase, because there will be several."
>
> The liquidation of 2007's historic and global top in debt might also take a while to work itself out. **"The complexity of this era of credit liquidation," as Robert Smitley wrote of the Great Depression in 1930s America , "is far too great for the mob mind to grasp. It is hardly possible for them to see the picture wherein about $700 billion dollars of physical and intangible wealth is attempting to be turned into about $5 billion dollars of money."**
>
> How much intangible debt *now* needs to be squeezed back into how much real money? It would be easier to find a cheap mortgage – with no ugly ARM once the teaser is finished – than guess at those numbers today. (emphasis added)

[$5 Trillion in Housing Wealth Gone: The Impact of the Housing Bubble Bursting]

> Housing has created immense wealth in the economy and has propelled us out of a brief recession earlier in the decade. Yet this wealth was created on an illusion of easy credit.

> It is estimated that the housing bubble has created 5 trillion additional dollars of wealth as compared to a scenario where housing kept pace with inflation. This is important to note because historically, housing has only kept pace with inflation as an investment. When you have certain areas up 80 percent in real terms as the Center for Economic Policy Research has showed, we have speculation and not normal growth....
>
> ....This irresponsible lending has created an environment where the only recourse is a hard and steep correction in the housing market. The Fed, housing industry, buyers, and sellers were only all too happy to be accomplices in this bubble. Yet this doesnt mean that what has occurred is based in any economic reality aside from the fundamentals of asset bubbles. It was all an illusion. Now that we are seeing subprime lenders imploding and mortgages resetting, the true cost of this economic expansion is coming to fruition.

[Market-Made Shock Waves]

> When money and credit are free and easy, people become free and easy with them. They begin spending more than they should...and investing recklessly. Eventually, there is a shock...a tipping point...a moment of desperate reality, in which people feel the ground give way beneath their
> feet. They look down and panic.
>
> What kind of a shock? It could be almost anything. Sometimes it is a war...sometimes a bankruptcy...sometimes a market shock - such as a sudden increase in the price of oil...or the collapse of a stock market. Then investors, as if they shared a single mind, begin to worry not about the return ON their money; they are concerned about the return OF their money.

[Junk-rated loans hit new lows]

> The price of junk-rated loans in the US and European markets has tumbled in the past couple of weeks as investors begin to turn away from the asset class, according to new data from S&P LCD, the market information service.
>
> US leveraged loan prices have fallen to their lowest level in more than four years, while in the derivatives markets a sell-off has pushed the prices of both US and European loan risk to less than the face value of the loans themselves.
>
> The fall in prices is significant for banks and private equity firms preparing to launch new debt deals after recent buy-outs because it implies a rise in loan yields, which means higher borrowing costs.
>
> Leveraged loans, which are used to fund most of the value of private equity backed buy-out deals, have enjoyed a boom as the markets have opened up to new kinds of investors attracted in by high yields and stable historical performance.
>
> Growing concerns about the level of borrowings employed by private equity and the aggressiveness of debt structures, coupled with the problems in the US subprime mortgage market, have sparked a crisis of confidence in debt markets.

One error, and BCE's debt could drag it down

> What's wrong with a high ratio? High debt, and the interest payments that go with it, reduces a company's financial flexibility and can make it beholden to the lenders and their typically strict debt covenants.
>
> It means the high interest payments can squeeze out other spending, such as capital investment. It can mean disaster if interest rates climb or cash flows fall. If the debt is in a foreign currency, as much of BCE's will be, you can add exchange risk to the picture.
>
> True, BCE as a private company will not have to pay dividends or taxes (because interest is tax deductible), but what it saves in those two categories will probably be more than offset by the ballooning interest payments.
>
> BCE's annual interest bill is about $877.5-million. The new BCE's payments will probably rise to $3-billion, for two reasons: The overall debt is much higher and the "blended" interest rate will go from 6.75 per cent to about 8 per cent, thanks to the presence of the American high-yield notes, the more polite term for junk bonds.
>
> Don't be surprised if the interest payments mean BCE will have to trim capital expenditures by $200-million to $300-million. The network might have to suffer to keep the debt holders happy.

CIBC's subprime exposure in the spotlight

> The Canadian Imperial Bank of Commerce's exposure to the U.S. subprime mortgage market has attracted more attention, with a Barron's article noting that some observers say it could be more than $2-billion (U.S.).
>
> It comes on the heels of a report in the Globe and Mail and a recent report in BusinessWeek, each of which cited observers who speculate that the Canadian bank might have significant exposure. The bank has acknowledged exposure of about $330-million (U.S.) and told the Globe and Mail last month that its direct exposure is well below a figure of $2.6-billion that had been surmised by one industry newsletter.
>
> The bank has declined to quantify its exposure.
>
> The Barron's article, published over the weekend, said that banks, brokerages and other financial firms could be facing financial Armageddon because of subprime mortgages.
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> Wall Street has rolled out a trillion dollars or so of securities in the past two years to fund the mortgages of borrowers who don't have good credit, the article said, and it estimated that the losses on these securities could eventually exceed $100-billion.

Italease blow-up stokes derivatives fears

> A derivative blow-up at the Italian bank Italease has sent tremors through Milan's banking fraternity and exposed the hidden dangers of exotic credit instruments.
>
> The bank has paid off 610 million euros (£419m) in recent days to counter-parties in

> what amounts to a massive margin call after interest rate rises in Europe caused hedging and derivative losses by clients to mushroom out of control.

[Mortgage resets: Record bill coming due]

> "In October alone more than $50 billion in ARMs will reset," according to Mark Zandi, chief economist and co-founder of Moody's Economy.com. That's a record, according to Zandi.
>
> A buyer in 2005 with poor credit and limited means might have signed on for a $200,000 2/28 hybrid ARM, locking in a fixed rate of 4 percent for two years. After paying $955 a month, his bill would now be set to spike to $1,331, a 39 percent increase.
>
> Until recently, rising home prices bailed out many ARM borrowers in trouble. They could raise cash with cash-out refinancings or home equity lines of credit. If worse came to worse, they could sell the house and get some money back.
>
> But prices have stabilized or slipped in many markets.

[Why a Housing Recovery Is Far Off]

> The dynamics have changed since sales began to fall in the summer of 2005. At that time, the Fed was in the middle of its program to normalize short-term interest rates, which inexorably raised the cost of adjustable-rate mortgages. The flood of cheap ARMs when the fed-funds rate was very low was a key driver of the housing boom's latter stages. Many borrowers who were lured into the market by the availability of cheap ARMs should never have been granted loans, but there weren't many complaints at the time.
>
> While demand was beginning to falter, home builders were still running at full tilt. The flow of new homes onto the market didn't slow significantly until 2006's second quarter. Partly because of the time needed to build homes, and partly because of many builders' hubris, this slow response to falling demand ballooned inventory.

[Consumer borrowing jumps in May]

> David Wyss, chief economist at Standard & Poor's in New York, said some of the surge in credit card debt reflects the fact that it is getting harder to get home equity loans with banks tightening up on standards and home values not soaring as they did during the housing boom.
>
> "We think that people who had been refinancing their credit card debt into home equity loans are finding that harder to do now," Wyss said. That would explain part of the big rise in credit card borrowing in May, he said.

[Like lab rats]

> It is fascinating to watch the ongoing developments in how the American consumer is adjusting to the new realities of a world where easy credit no longer abounds.
>
> In some ways they are like the lab rats in those cocaine experiments where the little fellas just keep hitting the levers to dispense more of the narcotic. Over time, the drug causes a reaction that looks almost like an instinctual or natural survival response when in fact the little guys' internal chemistry is so messed up that his little world is anything but natural.
>
> That same sort of behavior can be seen in a growing number of American consumers these days as there appears to be little choice other than to keep hitting one of several levers to get more credit, to perpetuate an existence that is anything but natural, their internal chemistry severely impaired as well.

Vancouver Housing Bubble to Pop?

> Sales and listings in B.C. have "cooled down" and "levelled off," according to RBC. Inventory in the Greater Vancouver market is up to around 12,000 properties for sale, those properties are sitting on the market longer, and the housing market generally is experiencing a slowdown. B.C. "is unique in the Western provinces" because it appears to have already reached a "saturation point."
>
> RBC predicts that the likely interest rate increase tomorrow will be the first of several increases this year, bringing the total increase up to a full per cent over the next twelve months. Combined with the other factors, this likely means the beginning of the end of the real estate "bull" cycle. The question is whether it will mean a levelling off or a decrease in prices.

Finance rejects common currency

> Proponents argue a euro-style single currency for North America would eliminate the transaction costs and uncertainties of sharp shifts in Canada-U.S. exchange rates. It would be an easier transition if the dollar is relatively close in value to its American counterpart. Last week it hit a 30-year high of nearly 96 cents U.S.
>
> The notion of a continental currency isn't far fetched.
>
> Bank of Canada Governor David Dodge said in May that it's "possible" North America could one day embrace it.

U.S. Looks to Canada for More Oil

> Alberta's massive, gunky oil-sands deposits -- which yield a heavy oil that is dirtier and more difficult to turn into gasoline -- are about the same size as Saudi Arabia's but cost more to process and turn into fuel. The oil sands currently produce about 1.2 million barrels a day, but are expected to churn out 3.7 million barrels a day by 2020. Much of this new supply is expected to be exported to the U.S. However, rising costs and labor

constraints could hamper production, and rising internal Canadian demand could affect export levels.

[Canada's oil boom has legs, IEA says]

> Surging demand in the developing world and oil-addicted consumers in the West will ensure at least five more years of tight petroleum markets, maintaining the boomtown momentum of Canada's oil patch, the industrial world's energy watchdog predicts.
>
> Unlike in the past, sharply higher oil prices have not dampened global demand, nor brought on sufficient new supplies of crude oil to offset declines in more mature fields, the International Energy Agency said Monday.
>
> “Despite four years of high oil prices, this report sees increasing market tightness beyond 2010,” the IEA concluded in its medium-term forecast, released Monday. The agency increased its five-year forecast for global oil demand from the one released six months ago, and reduced its expectation for more supply from non-members of the Organization of Petroleum Exporting Countries.
>
> As a result, the energy agency is forecasting “substantially higher cash returns to shareholders” of global oil companies, whether those owners are governments or private investors.
>
> Peter Tertzakian, chief energy economist with Calgary-based ARC Financial Corp., said the IEA outlook was extremely bullish for Canadian oil and gas producers, and underscores the ever-increasing appetite for oil sands production, even as costs there soar.
>
> “This report confirms what the market is already starting to believe,” Mr. Tertzakian said. “There had been a sense of complacency [about abundance of cheap energy], and that complacency should end.”

[Black gold's tarnish seen in Canada]

> Separating petroleum from sand burns so much natural gas that the enterprise is becoming the largest source of greenhouse gas emissions growth in Canada. The oil sands lie within a major intact ecosystem, the boreal forest covering almost a third of Canada's land mass.
>
> The forest is one of the world's biggest freshwater storehouses and absorbs a vast amount of carbon dioxide. It also provides habitat for hundreds of species of birds and is home to caribous, wolves and bears. Expansion of the oil sands operations could tear huge holes in a forest already rent by logging, oil and gas exploration and other industries.
>
> With development expected to triple, or even quintuple, in the next few decades, producers and government officials puzzle over how to harness the oil sands' potential with less cost to the climate, land, water and the well-being of native peoples who fear that cancer cases in a downstream community may be a sign of lethal industrial pollution.

Current leases for open-pit mining cover an area several times the size of New York City, according to the Pembina Institute, an environmental research group in Alberta. But more than 50,000 square miles is potentially available for various types of oil extraction, which has prompted environmentalists to call for stopping development until ecological effects can be reduced.

"The very nature of oil sands means that developing them ... causes an incredible disruption to land and landscape over immense areas," said a March report by the House of Commons natural resources committee.

[Loss of 1,000 megawatts hitting OPG just as electricity demand nears its peak]

Ontario Power Generation said yesterday its two Pickering A nuclear units, which have been down for unplanned maintenance for a month, will now be out of service for most of the summer.

The lengthy outage means the province will be short 1,000 megawatts of domestic power generation just as southern Ontario enters its hottest weekend of the year so far, with little relief expected as we pass through the muggy months of July and August - typically a period of high electricity
demand because of increased dependence on air conditioning.

"What it does is increase the need for imports, particularly during hot and humid weather," said Terry Young, spokesperson for the Independent Electricity System Operator, which manages demand and supply on Ontario's electricity system.

[Energy productivity the profitable path to sustainable growth]

Although the global economy is becoming more efficient at using energy, achieving a 1-per-cent annual increase in its rate of energy productivity, that modest pace alone will not slow overall growth in energy demand - or the associated greenhouse gas emissions.

Yet opportunities for improving energy productivity exist across all sectors.

[Don't let the plain look fool you]

The two-storey red brick home at 162 Goodwin Dr. in Westminster Woods could pass for a typical new home you might find in any Ontario subdivision.

But the 2,300-square-foot abode by Reid's Heritage Homes has raised the bar for green living by becoming the first single-family detached house in Canada to get platinum LEED (Leadership in Energy and Environmental Design) certification, the highest benchmark.

It has achieved the required performance in the areas of sustainable site development, water savings, energy efficiency, material selection, innnovative design and indoor air quality.

[Western leaders support north's bid for autonomy]

> Western premiers are throwing their support behind a bid by the northern territories to cut their apron strings to the federal government.
>
> And they're hoping that Prime Minister Stephen Harper will agree to let the territories become masters of their own destiny, given his new emphasis on the North and his long-standing belief in decentralization....
>
> ....But a report commissioned by Indian Affairs Minister Jim Prentice has already said the Arctic territory is not ready to take over from the federal government.
>
> Nunavut faces challenges ranging form social problems to economic development, but its biggest problem remains a shortage of trained people, said the report released last month.
>
> And while Harper may be receptive in principle, the issue also risks plunging him into another round of fed-bashing over whether the territories should be able to reap the full benefit of their resource revenues without losing any federal transfers.

[The Rock's new-found nationalism]

> Many Newfoundlanders, and I'm referring to those on the island, not in Labrador, are genuinely fed up with Canada. In letters to the editor, call-in shows and editorial columns, some have even suggested secession. But this is not Quebec (or Scotland). There are no popular political organizations actively promoting such strategies, at least not yet. Newfoundland nationalism is expressed in unique music, literature, art, and theatre, and finds its voice in provincial politics. Newfoundlanders regard their House of Assembly with more relevance than the Parliament of Canada as the guardian of national interest. The fullest expression of national self-determination is not based on language and culture, as in Quebec, but on resource ownership and control.

[Adding Insult to the Injuries of Corporate Globalization]

> “Atlantica” is defined by its purveyors as “a region, a simple geographic construct” which includes all four of the Atlantic Provinces, eastern portions of Quebec and five northern New England states. Within this proposed free-trade zone are 7 major rail gateways, 11 major truck gateways, and 23 border crossings — all of which interconnect the various parts of the proposed Atlantica region, a region that has been the victim of intense exploitation of its natural resources, union busting, and socio-economic poverty.
>
> Atlantica, also known as the International Northeast Economic Region (AINER), has as its main goal the eradication of traditional trade regulations faced by corporations, and seeks to envelop areas where workers are already economically dispossessed and living lives rife with financial hardships. The logic on the part of the Atlantica backers however, makes perfect sense: the poorer people are, the harder they will work for less. Considering this, the region sought to be exploited by Atlantica is ripe for the picking.

Alberta aiming for carbon trading

> Alberta is inching towards a market for carbon trading, a means for big greenhouse gas emitters to meet the provincial government's requirement to become more efficient.
>
> Effective March 31, 2008, the 100 or so plants in the province that produce more than 100,000 tonnes of greenhouse-gas emissions have to take action to cut their carbon intensity by 12 per cent, retroactive to July 1, 2007.

Greenland really was green once

> The surface of most of Greenland is now entombed by a thick ice cap, but some time during the past 800,000 years the southern part of the island actually lived up to its name. It was covered by a thick, verdant boreal forest that would have been similar to what is currently found in many regions of Canada.
>
> The Greenland forest contained pine trees, yews, and aspens, where a profusion of insect life, including beetles, flies, months, and butterflies flitted among the plants.
>
> The surprising discovery, made by an international team of scientists, including some from Canada, was based on an analysis of tiny fragments of DNA preserved in ice drawn from cores drilled nearly to the bottom of Greenland's ice sheet.

The starvation of the grey whale

> The phenomenon of skinny whales was first noticed earlier this year in the shallow San Ignacio Lagoon, where they over-winter while giving birth and then nurse their calves before setting out on their 6,000-mile journey back to the once-rich feeding grounds of the Bering Sea. It was in San Ignacio that a group of young American marine biologists led by Steven Swartz of the National Marine Fisheries Service noticed the telltale signs of malnutrition.
>
> The skinny whales had arrived in Mexico after swimming from the far reaches of the Arctic Ocean. It is one of the world's most extraordinary environments, a place of wild untamed seas and thousands of miles of ice, that forms an ecosystem that few people know exists, and fewer still understand. But as the ice cap melts, something dramatic has happened to the food supply of the Arctic ecosystem.
>
> But that is not all. Another, equally dramatic change, is taking place as global warming takes its toll. It is providing, for some, a opportunity for a new El Dorado that will allow rapid economic development in areas previously beyond reach. Right now the US federal government is moving to open up some 83 million acres of Alaska's seas for oil and gas development. Two of the areas already in the sights of BP, Shell and Conoco Phillips are the Chukchi and Beaufort Seas - both relatively unknown, except to the grey whales which feed there every summer.
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> The stakes are high for all concerned. For while climate change is seen as a dire threat to the planet in many parts, for a US increasingly concerned about the security of oil supplies, it is a potential bonanza. Reduced polar sea ice is expected to open up the

> North-west passage through the Arctic ocean, turning it into a crowded and polluted oil tanker route for parts of the year.
>
> At the same time, the US, Canada and Russia are moving to develop oil and gas fields that global warming is making accessible for the first time. The plans for oil and gas development are so extensive that thy are expected to spread across Alaska's seas from the Canadian border to the border with Russia. A new plan to begin offshore production of oil and gas in the area the grey whales feed in is currently underway. If Congress does not object in the next couple of weeks the plan goes into law. Because high petrol prices are hurting so many Americans, it would be political suicide for Congress to halt the development.

Amphibian Population Shrinks, Taking Potential Medicines With Them

> The global amphibian crisis continues to grow as **conservationists estimate that up to half of all species of amphibians will go extinct in the next five to 10 years**....
>
> ...."If you take that big of a biomass out of the environment, the ripple effect has to be horrendous," Simmons said. (emphasis added)

Vital Signs of a Warming World (multimedia)

Live Earth is promoting green to save the planet - what planet are they on?

> The Live Earth event is, in the words of one commentator: "a massive, hypocritical fraud".
>
> For while the organisers' commitment to save the planet is genuine, the very process of putting on such a vast event, with more than 150 performers jetting around the world to appear in concerts from Tokyo to Hamburg, is surely an exercise in hypocrisy on a grand scale.
>
> Matt Bellamy, front man of the rock band Muse, has dubbed it 'private jets for climate change'.
>
> A Daily Mail investigation has revealed that far from saving the planet, the extravaganza will generate a huge fuel bill, acres of garbage, thousands of tonnes of carbon emissions, and a mileage total equal to the movement of an army.

7-7-7: The Launch of Global Warming Inc. (previously on TOD:Canada)

> Back to Live Earth. The key buzz word in all of it is raising "awareness". But awareness of what, exactly? That there is a problem in 2050, or that there is one today? Though many people brush it off, that is a crucial difference. If the problem is immediate, 2050 is pretty much a meaningless date. Raising awareness of a problem to take place in 43 years is useless, and even damaging, since it diverts attention from the real issue: today's problems. Besides, how big is the problem? Do we know? Is there some slight

discomfort on the horizon, or will 500 million people die? Which of the two are the Live Earth crowds "aware" of the day after the party? Is just any awareness better than none at all? Even if it concerns false facts? The magician says: “Watch the hand”. Is that reality enough when the lives of your children depend on it?

[Carbon-neutral sacrifices spelled out]

Britain could reduce its carbon emissions to zero over the next 20 years - but it would mean no flying, an annual carbon allowance for all and a diet almost without meat or milk, a report said.

The findings by the Centre for Alternative Technology in west Wales go further than any other scientific body or environmental group by suggesting that Britain could cut its energy use by 50 per cent by 2027 and supply this entirely by wind and wave power.

[A high-speed revolution]

This week high-speed railways in France, Germany, Belgium, the Netherlands, Austria and Switzerland joined with existing international services, such as the cross-channel Eurostar and the Paris-Brussels Thalys, to form Railteam, a new marketing alliance. The aim by the end of next year is to have one website that will allow travellers to view timetables and prices and, with one or two clicks, book tickets from one end of Europe to another. At the European Commission's insistence, Railteam members will compete on prices, though there could be some tricky moments as some of them team up to take on airlines.

[Africa's Energy Crisis]

The continent is in the middle of a serious energy crisis, and it's getting worse. The World Bank says that in another decade, the number of people in sub-Saharan Africa who do not have access to electricity could jump from 20 percent to about 60 percent.

[Australia to build climate corridor]

The creation of the corridor was agreed by state and federal governments this year amid international warnings that the country -- already the world's driest inhabited continent -- is suffering from an accelerated Greenhouse effect.

Climate scientists have predicted temperatures rising by up to 6.7 degrees Celsius (12 degrees Fahrenheit) by 2080 in the country's vast outback interior. A 10-year drought is expected to slash one percent from the A$940 billion (401 billion pound) economy.

The corridor, under discussion since the 1990s as the argument in support of climate change strengthened, will link national parks, state forests and government land. It will help preserve scores of endangered species.

"We are talking a very long-term vision, a land use that values keeping the eastern forests in place over past uses like landclearing," said Graeme Worboys from the IUCN, the world conservation union.

Australia's Bureau of Meteorology last year said climate change was occurring so fast in Australia that cooler southern towns were moving to the warmer north at the rate of 100 kilometres each year.

[The great pall of China]

On Thursday, an official said it was "not the time" for the PRC to consider binding commitments to reduce greenhouse gas emissions. The Chinese point out that, given the population differences, the US was still way ahead of the PRC in per capita emissions, and remind us that the West showed no regard for the environment during its industrial revolutions. Perfectly true, but that does not diminish the actual impact on the rest of the planet or on China itself.

[Food vs fuel wars just beginning]

China also has an ethanol industry. It was basically started by Western investors who sought to profit by China's corn and the relatively cheap labor as the global price of oil climbs. The Chinese government has been quick to recognize the danger of diverting corn into ethanol. It has said that in view of the food shortage, ethanol production has no place in the Chinese economy.

How should governments proceed in what is a free market economy? The chief remedy is to reduce government subsidies to the ethanol industry. This seems difficult in the US Congress because of vested interests such as farmers who grow corn.

We are already seeing urban protests in countries such as Indonesia, Egypt, Algeria, Nigeria and Mexico. In Mexico, 75,000 people have taken to the streets forcing the government to initiate price controls on corn-based tortillas, their staple food.

It does not take a leap of imagination to see that continuing down the path of corn for fuel will lead to worldwide famine affecting billions of people. This will certainly lead to political instability, social unrest and general chaos.

The picture is not complete if we do not mention another major reason for the global rise in food prices. That is the fast growth of the world population.

[Dream farms turning into nightmares]

"When I started out 40 years ago, it didn't cost anything," veteran agriculturalist Anand Subhedar said.

"You'd use the seeds from the previous year's crop, and your cow's manure for fertilizer. If you had a bad crop, you'd eat poorly for the year, but you'd be able to start again the next year."

Starting in the 1970s, India's farm economy changed. The Green Revolution introduced chemical fertilizers and hybrid seeds, allowing huge yields. On the whole, this was very successful: Since the seventies, there have been no major famines in India, and the country usually produces large food surpluses.

Many farmers switched to cotton, with government encouragement: The Mumbai-based fabric industry was hungry for the fibre, and new techniques promised big yields.

In the 1990s, new genetically engineered cotton seeds became available, which produced far higher yields and healthier crops with less use of pesticides. Most Indian farmers switched to Bt seeds made by Monsanto Co., which can produce rewarding results in large-scale farms. But they have one flaw for the small farmer: New seeds must be purchased each year, at a high price. Counting seeds and fertilizer, the cost of starting each year's crop has jumped from zero to hundreds of dollars.

At the same time, cotton prices have plunged, mainly because of oversupply but also because the United States, the world's largest cotton producer, provides generous government subsidies to its farmers, allowing them to sell at a far lower cost.

This has led many in India to blame the Americans for producing both the expensive farming techniques and the declining cotton prices.

"Our farmers are victims of a global economic system that provides all the benefits to the United States at the expense of the world's poor," Vijay Jawandia, head of the local farmers' union, said.