The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: August 21st 2007

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Nope, That's Not Money

> Prudent Bear's Doug Noland has for years been pointing out that one of the drivers of the credit bubble has been the ever-broadening definition of money. As the global economy expanded without a hic-up, more and more instruments came to be used as a store of value or medium of exchange or even a standard against which to value other things—in other words, as money.
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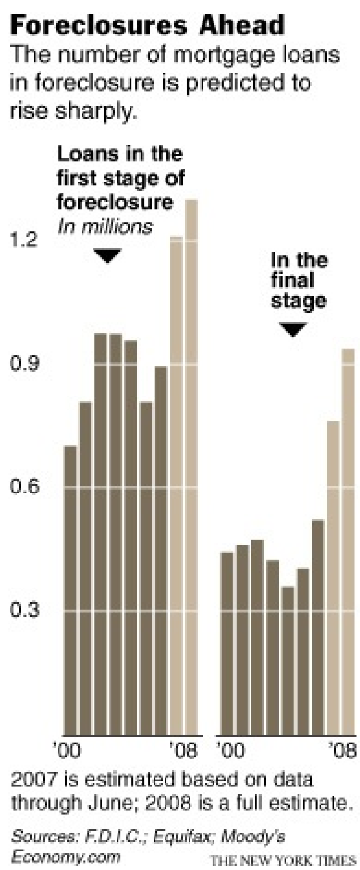
> 
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> Thus mortgage-backed bonds and even more exotic things came to be seen as nearly risk-free and infinitely liquid. In Noland's terms, credit gained "moneyness," which sent the effective global money supply through the roof. This in turn allowed the U.S. and its trading partners to keep adding jobs and appearing to grow, despite debt levels that were rising into the stratosphere. For a while there, borrowing actually made the world richer, because both the cash received and the debt created functioned as money.
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> With a few months of hindsight, it's now clear that debt-as-money was not one of humanity's better ideas. When the U.S. housing market—the source of all that mortgage-backed pseudo money—began to tank, hedge funds found out that an asset-backed bond wasn't exactly the same thing as a stack of hundred dollar bills. The global economy then started taking inventory of what it was using as money. And it began crossing things off the list. Subprime ABS? Nope, that's not money. BBB corporate bonds? Nope. High-grade corporates? Alas, no. Credit default swaps? Are you kidding me?
>
> No longer able to function as money, these instruments are being "repriced" (a slick little euphemism for "dumped for whatever anyone will pay"), which is causing a cascade failure of the many business models that depend on infinite liquidity. **The effective global money supply is contracting at a double-digit rate**, reversing out much of the past decade's growth.

Paul Krugman: It's a Miserable Life

> The scary thing about bank runs is that doubts about a bank's soundness can be a self-fulfilling prophecy: a bank that should be safely in the black can nonetheless fail if it's forced to sell assets in a hurry. And bank failures can have devastating economic effects. Many economists believe that the banking panic of the early 1930s, not the stock market crash of 1929, was the principal cause of the Great Depression....
>
> ....The problems at KKR Financial are part of a broader picture in which many investors, spooked by the problems in the mortgage market, have been pulling their money out of institutions that use short-term borrowing to finance long-term investments. These institutions aren't called banks, but in economic terms what's been happening amounts to a burgeoning banking panic.
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> On Friday, the Federal Reserve tried to quell this panic by announcing a surprise cut in the discount rate, the rate at which it lends money to banks. It remains to be seen whether the move will do the trick.
>
> The problem, as many observers have noticed, is that the Fed's move is largely symbolic. It makes more funds available to depository institutions, a k a old-fashioned banks — but old-fashioned banks aren't where the crisis is centered. And the Fed doesn't have any clear way to deal with bank runs on institutions that aren't called banks.

A Financial Market Crash is a Process, Not an Event

> A financial crash is not sudden, singular event. The way the Crash of 1929 is commonly misunderstood, the market crashed on Monday, October 31, 1929 and soup lines formed Tuesday.
>
> A financial crash is a process lasting as long as a year, punctuated by a few notable grip-and-grin market events that make it into the history books. Underlying the process is the dissolution of a fallacious belief system that developed over a period of many years. Fallacies floated on an ocean of cheap credit. As the credit dries up, facts are revealed under the harsh light of reality.

Throwing a Bone To A Starving Dog

> This is not a sign of a Fed that has eased policy. Maybe that will change next week, but all we have so far is a few skillfully placed words designed to keep the con going. It's a bit of a chess game. The Fed made its move, and now they will wait to see how the market reacts. If the boyz on Liberty Street and Wall Street are now patting themselves on the back at the moment, I suspect their self congratulations will be short lived, because there really is a liquidity crisis out there. There's simply too much bad paper not paying the claims against it, and not being worth what the mark to model fairy tale said it was worth.

The market's recovery was based in part on the expectation that the Fed may buy some of the bad MBS paper and magically transform bad to good. **That expectation is likely to be one of those false assumptions that George Soros talked about. He said something to the effect that it is the speculator's job to recognize the false trend, ride it, and exit before the crowd wakes up.** I haven't done the charts yet this weekend, but I suspect that the trend driven by this false premise may last all of a day and a half. We'll see.

My guess is that the Fed will allow the worst of the crap credit and the crappy players to disappear from the firmament, but will save its firepower to save the biggest players in the banking system when the time comes. And that time is coming.

[Bernanke fears economy will hit a brick wall]

America is sliding into the worst housing slump since the Depression. The median price of new homes has dropped from $262,600 in March to $237,900 in June, down nearly 10pc (Commerce Department). The overhang of unsold homes is 7.8 months' supply. The Case-Shiller index of 10 major cities showed a drop of 3.4pc for all houses in the year to May, with falls of 11.1pc in Detroit and 7pc in San Diego. The market has yet to absorb the shock of 2m adjustable mortgages with "teaser" rates being reset upwards by 35pc over coming months.

The bond markets know the fuse is already lit on mass default, which is why $2,000bn of US sub-prime and Alt-A debt packaged as securities is being marked down so violently on books - German, French and Dutch books as it turns out.

The hit to the real economy will follow soon. Americans now face wealth deflation on both the housing and equity markets. The savings rate is negative for the first time since 1934, leaving no cushion. The game of drawing down home equity to pay bills - 6pc of GDP at the height of the bubble - is finished.

Consumers are wilting.

Look at the profit warnings from Wal-Mart, Home Depot, and Macy's. July car sales were the lowest in nine years - not surprising, since the credit crunch has engulfed auto loans.

[Stocks May Grow More Volatile After Fed's Rate Cut]

The Fed's 0.5 percentage point reduction to its discount rate suggests losses from subprime mortgage defaults are worse than previously known, said Jim Melcher, president of Balestra Capital Ltd. in New York.

"There's reason to believe there will be a lot more volatility," said Melcher, whose hedge fund has climbed more than 85 percent this year. "Why would they do this if things were just fine?"....

...."What the Fed did provides a psychological safety net," said Russ Koesterich, who helps manage about $1.9 trillion at Barclays Global Investors in San Francisco. "The bearish argument is that it may not be enough, or it's too little, too late."

[The escape of the enablers]

Wall Street loves to talk about letting financial markets weed out the weak. But when the Street itself gets in trouble, it sticks out its little tin cup, asking for help. And gets it.

The subprime-mortgage-market meltdown is a classic example of the way small fry get devoured, but the whales of Wall Street get rescued. Here's the deal: People with crummy credit who took out mortgages are being allowed to fail in record numbers. The mortgage companies that made those loans are being allowed to fail.

The Street itself? It's bailout city. Even before the Fed made a symbolic half-point cut in the discount rate, it and other central banks from Switzerland to Singapore were trying to rescue the Street by injecting hundreds of billions of dollars into the financial markets and announcing they will put up more, if needed.

Hello? If you believe in markets - which I do - this rescue is especially galling, because Wall Street enabled this mess in the first place. How so? By happily sucking up hundreds of billions of dollars' worth of suspect mortgages from marginal U.S. borrowers-and begging mortgage makers to create more of them. The Street sliced and diced this financial toxic waste into a variety of esoteric securities, making a nice markup when it sold them and generating a continuing stream of profits when it made markets in them.

Somehow analysts at credit-rating agencies, looking at computerized scenarios rather than at the real world, decided that the bulk of the securities backed by these trashy loans could be rated triple-A.

It's really amazing: Most of the loans to substandard creditors borrowing 100% of the purchase price of homes they couldn't afford were rated the same as GE and the federal government. That makes no sense. But the money rolled in, and Wall Street-by which I mean the world's biggest and most important financial institutions-didn't care about the real world or ask any questions. It was too busy making money, and cashing bonus checks generated by subprime-mortgage profits.

[Ratings agencies under fire]

Hedge fund managers aren't the only ones demanding answers as estimates of global losses due to U.S. subprime mortgages mushroom to as much as $150 billion. While out-of-date banking regulations and lax federal oversight didn't help matters, it was the complicity of the rating agencies -- Standard & Poor's, Moody's, and Fitch Ratings -- that enabled the boom.

Now European regulators are probing whether they underestimated risk, and many expect U.S. investigations and investor lawsuits to follow....

....By working hand-in-glove with the rating agencies -- which were paid large fees for their involvement -- institutions managed to get masses of these mortgage-backed securities rated investment grade. All of a sudden risky consumer loans were

> reconstituted into -- presto! -- something seemingly no more risky than a government Treasury bond.

Mortgage meltdown: The lawsuits

> Earlier this year, a Wisconsin couple won a judgment against Chevy Chase Bank that said the bank deceived them over the terms of their mortgage.
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> The judge ordered Chevy Chase to rescind the loan and certified the lawsuit as class-action, which could potentially release thousands of other borrowers who felt misled....
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> ...."It's a three-part business cycle now," said Don Lampe, a partner with the law firm Womble Carlyle, whose specialty is mortgage matters. "Boom, bust and recrimination. We're moving into the recrimination phase."
>
> "Most claims will be against mortgage brokers for putting them into loans where they shouldn't have been," said Dan Mulligan, a California-based real estate attorney.

After Foreclosure, a Big Tax Bill From the I.R.S.

> Notices of unpaid taxes, unanticipated and little understood, will probably multiply as more people fall behind on their mortgages, said Ellen Harnick, senior policy counsel at the Center for Responsible Lending, a nonpartisan research and policy center in Durham, N.C.
>
> Foreclosure is one way that beleaguered homeowners can fall into this tax trap. The other is when homeowners are forced to sell their homes for less than the value of the mortgage. If the lender forgives that difference, they are liable for income taxes on that amount.
>
> The 1099 shortfall, as it is called, stems from an Internal Revenue Service policy that treats forgiven debt of all types as income even if the taxpayer has nothing tangible to show for it, unless the debt is canceled through bankruptcy.

How Missed Signs Contributed to a Mortgage Meltdown

> The extent of the turmoil has stunned much of Wall Street, but as Mr. Melcher’s case makes clear, there were ample warning signs that a financial time bomb in the form of subprime mortgages was ticking quietly for months, if not years.
>
> As far back as 2001, advocates for low-income homeowners had argued that mortgage providers were making loans to borrowers without regard to their ability to repay. Many could not even scrape together the money for a down payment and were being approved with little or no documentation of their income or assets.

In December, the first subprime lenders started failing as more borrowers began falling behind on payments, often shortly after they received the loans. And in February, HSBC, the large British bank, set aside $1.76 billion because of problems in its American subprime lending business.

Over the last two weeks, this slowly building wave became a tsunami in the global financial markets.

Hedge funds in flight to quality

Prime brokers have seen a flight to quality by hedge fund clients, who have transferred up to $50bn (€37bn) of assets from higher-risk banks to the prime brokerage operations of commercial banks with bigger balance sheets and better credit ratings....

....Clients have moved to commercial banks in search of lower financing costs. The higher credit rating of these banks means they have greater access to cheaper credit, from which their clients expect to benefit.

Hedge Funds Are Squeezed by Investors and Lenders

Liquidity — the ability to quickly sell an asset at a reasonable value — is the linchpin to markets functioning effectively, and its absence in recent weeks has led to substantial losses in many highly leveraged hedge funds.

“For hedge funds, illiquidity is their Achilles’ heel,” said one fund investor who was not authorized to speak to the media.

Pressure from banks to raise margin levels as well as pressure from investors could not have come at a worse time for hedge funds; the prices of the debt instruments they hold continue to fall, if they trade at all.

Panic on Wall Street

A metaphor might be useful here. The real economy is like the Super Bowl. Real men on a real field push each other around and play with a real ball for a set period of time, and the team with the most points at the end wins. But while all this is going on, millions of outsiders who are not physically involved in the game bet on its outcome. Only they don't bet just on the outcome. They also bet on the spread -- how badly one team might beat the other. Or they can get more creative and bet on what the combined score of the teams might be, or which team's quarterback will be the first to be injured. There's absolutely no limit to the things that you can bet on, as long as you can find someone to take your bet.

The betting economy is the unreal economy. All those sports bets, no matter how kooky, are financial exercises whose value and meaning are derived from what happens on the field. Theoretically speaking, the betting economy exists in a separate dimension from the actual game, but we all know that's not true. There's so much money involved in gambling that the temptation to fix the results becomes irresistible. Players and referees, for instance, can be bribed.

We can call a bribed NBA official an example of "spillover" from the betting economy into the sports economy. The very same thing happens in the real and unreal economies. So much money is riding on all the derivative bets connected to the housing sector that Wall Street speculators essentially rigged the housing sector to make their bets pay off.

The Panic of 2007

To say the credit markets are frozen is an understatement. Talking to any number of people who have been in the markets for decades, this is the worst in their memory. Ironically, it is the 100-year anniversary of the Panic of 1907, when one banker (J. P. Morgan) stepped in and provided liquidity to the markets. The central banks of the world are providing liquidity; but as we will see, it is not mere liquidity that is needed.

You cannot explain the problems with just one or two items. A perfect storm of this sort takes a number of factors all coming together to work its mischief. Bad mortgage underwriting practices, bad rating agency practices, a destruction of confidence, excessive leverage and then the withdrawal of that leverage, the need for yield, greed, and complacency which then in a Minsky moment (explained below) becomes paralyzing fear - all play their part.

Mish: Mad Dash For Cash

What about Countrywide's statement "It is very important to remember that Countrywide Bank is well capitalized, with FDIC-insured deposits, and is one of the largest banks in the United States, with assets over $107 billion."

Hmmm.

Is that the same Countrywide that said on August 2: "It is important to note that the Company has experienced no disruption in financing its ongoing daily operations, including placement of commercial paper."

Is that the same Countrywide that said on August 9: "Countrywide Financial Corp. faces 'unprecedented disruptions' in debt and mortgage-finance markets that could hurt earnings and the company's financial condition, the Calabasas, Calif., lender said in a regulatory filing."

Is that the same Countrywide that tapped $11.5 billion in credit lines in one fell swoop late last week?

Why yes it is.

Well capitalized banks should not be tapping $11.5 billion in credit lines out of fear those credit lines may be shut off later.

And stating that Countrywide is "still highly rated by debt-rating firms" is sure stretching things given that Countrywide's debt rating was cut to 'Baa3' and retained on negative watch by Moody's.

[My, How Fast Liquidity Disappeared]

We experienced a host of "Black Swans" that spooked the equity markets. We are now experiencing a temporary reprieve that will enable the de-leveraging of credit to continue.

On Thursday, Aug. 16, Christopher Wood, emerging markets analyst at CLSA (an affiliate of Crédit Lyonnais), predicted that "the world is nowhere yet near the peak of the fear that will be generated by the unwinding of the credit bubble."....

....But beware: The repricing of risk is not finished.

A hodgepodge of foreign investors--banks in Asia and Europe--own various species of subprime debt, and as the rating agencies downgrade this paper, they will have to mark it to market. J. Kyle Bass, managing partner of Hayman Capital in Dallas, predicted on July 30 that the highly leveraged mezzanine paper of the CDO (collateralized debt obligations) structures "will fetch bids of around 10 cents on the dollar, creating what he calls an "ensuing horror show."

This "horror show" will take time to work its way through the financial system. Expect to see huge losses taken by banks and other investors around the globe that will underscore the excesses of the past few years of reaching for yield without a clear understanding of what they were buying.

[Subprime Crisis May Spark D&O Insurance Claims, Marsh Says]

The subprime mortgage crisis may generate more claims on so-called directors and officers insurance policies and similar coverage, according to one of the world's largest insurance brokers.

So-called D&O policies protect executives and members of a company's board from liability in the event of a lawsuit against them claiming wrongdoing in connection with their firm's business. The coverage usually pays for the cost of defending lawsuits, after a deductible, and also a portion of any settlement....

....Mortgage lenders could file lawsuits against banks after being forced into bankruptcy when they were asked to buy back loans. These suits could claim that the banks imposed improper margin calls and valued the lender's underlying collateral incorrectly, Marsh explained.

Shareholders may sue subprime lenders that have gone bankrupt, claiming that the companies, their accountants, trustees, and underwriters, misrepresented or omitted details when accounting for residuals, the broker added.

> Large insurance claims on failed sub-prime collateral could spark lawsuits from bond insurers claiming the originators of the mortgages underwrote the loans poorly, Marsh said.

[Tough love on Wall Street]

> Regulators have been absent from the game, and information release has been left in the hands of individual institutions, some of which have compounded the uncertainty with comments about volatile market conditions unequaled during the lifetime of their careers.
>
> Also many institutions, including pension funds and insurance companies, argue that accounting rules allow them to mark subprime derivatives at cost. Default exposure, therefore, can hibernate for many months before its true value is revealed to investors and, importantly, to other lenders.
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> The significance of proper disclosure is, in effect, the key to the current crisis.

[Subprime Infects $300 Billion of Money Market Funds, Hikes Risk]

> Unlike bank accounts, money market funds aren't insured by the federal government. They almost never fail.
>
> Unbeknownst to most investors, some of the largest money market funds today are putting part of their cash into one of the riskiest debt investments in the world: collateralized debt obligations backed by subprime mortgage loans.
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> CDOs are packages of bonds and loans, and almost half of all CDOs sold in the U.S. in 2006 contained subprime debt, according to a March report by Moody's Investors Service.
>
> U.S. money market funds run by Bank of America Corp., Credit Suisse Group, Fidelity Investments and Morgan Stanley held more than $6 billion of CDOs with subprime debt in June, according to fund managers and filings with the U.S. Securities and Exchange Commission. Money market funds with total assets of $300 billion have invested in subprime debt this year.

[Fed urges banks to use discount window]

> The top executives of Wall Street’s leading commercial and investment banks gathered on an emergency conference call for about 20 minutes on Friday morning to hear a stern message from the Federal Reserve.
>
> Just after lowering the discount rate – the charge for banks when they borrow money from the government in a pinch – the US central bank told the financial institutions that

they should not be shy about using this “discount window” if they needed it.

“The Fed was very clear to the banks: they basically said we don’t want to hear about good credits being turned down,” said one person familiar with the matter.

[Deutsche Bank taps Fed credit window]

The move came on Friday, hours after the Fed surprised the markets with its decision to lower the rate on these loans at the discount window to 5.75 per cent from 6.25 per cent to stimulate banks’ willingness to lend.

Deutsche Bank declined to comment, but people close to the situation said its decision to tap the window was taken to show support for the Fed’s move to combat the credit squeeze.

It is unclear how much Deutsche has borrowed from the window.

Banks have been traditionally reluctant to tap the discount window for fear that the move would be seen as a sign of weakness.

[How a panicky day led the Fed to act]

Just before noon New York time, near the end of the London trading day, the yen suddenly surged against the dollar, rising 2% in just minutes and crushing currency-market players who hadn't anticipated such a sharp move. On the London trading floor of Goldman Sachs Group Inc., phone lines lit up in unison, and some salesmen wielded two phones at the same time. They were shoving and grabbing each other to get in front of traders, and shouting orders to execute trades, according to eyewitnesses.

Shortly afterwards, investors began piling into the shortest-term U.S. Treasury securities, which are considered safe because they're backed by the U.S. government. The yield on three-month bills, which had been around 4%, dropped as low as 3.4%, and the gap between yields on T-bills and corporate commercial paper widened sharply. "It was an extraordinarily violent move," said Jason Evans, head of government-bond trading at Deutsche Bank. "It became clear that the market was at a point of distress and expected a response" from the U.S. Federal Reserve.

These shocks reflected one of the most perilous days for global credit markets, the circulatory system of the international economy, since the 1997-98 crisis that began in Asia, spread to Russia and Brazil and eventually to the U.S.-based hedge fund Long-Term Capital Management.

[Behind the veil]

Among the hedge funds hardest hit were credit funds and those using a type of statistical arbitrage, known as long-short equity neutral. Stocks in these portfolios are picked assuming certain shares will rise and others will fall. In this case, the complex models that drive them were upended by the extreme market volatility. Four building-blocks of such models are stock valuations, quality, price momentum and earnings momentum. These usually offset each other, but when they all started suffering, the models went awry. Some of the world's biggest hedge funds all began selling the same things at the same time. "You had the proverbial camel trying to get through the eye of the needle," an analyst says.

[National Bank offers shelter from credit crunch]

In a dramatic bid to protect retail, mutual fund and some other clients from losses and save its reputation from a beating, National Bank of Canada has pledged to buy back about $2-billion in troubled asset-backed commercial paper (ABCP) that it sold them.

The bank said Monday morning that it will buy all the ABCP held by these clients so that they "will no longer have any exposure to the market for ABCP, while having access to liquidity for immediate needs." Payments will total 100 per cent of the clients' original purchase price plus accrued interest, it said.

The short-term paper, sold as a good place to park cash at a premium return, has run into a major liquidity crisis in the current global credit squeeze, especially a variety sold by so-called "third party" or non-bank issuers.

[Warnings were issued well ahead of crisis]

That brings us to the crisis in Canada this week. The ABCP market relies on the ability of issuers to keep rolling over short-term paper and sometimes the market isn't so interested in new paper. To ensure that does no harm, issuers have backup buffer deals with lenders. If there is a liquidity crisis, issuers can draw on these backup lines to keep rolling the paper over, and avoid a liquidation of assets when nobody wants them. The only condition is that the assets remain creditworthy. When the turmoil subsides, normalcy prevails.

That is the way it works in every developed financial market -- except Canada, where it's also normal to have 13 securities regulators. Here, the federal regulator, the Office of the Superintendent of Financial Institutions, in 1994, effectively discouraged the granting of liquidity lines to ABCP programs except during what it called a "general market disruption." That has been interpreted as a time when there is no appetite for even $1 of commercial paper, at any price.

[Critics object to banks' agreement]

A day after a group of 10 major banks and financial institutions announced a plan to rescue Canada's beleaguered short-term debt market, some players are already raising objections to the plan, saying that it doesn't give them a fair shake.

On Thursday ABN Amro, Barclays Capital, Desjardins Group, Deutsche Bank, Merrill Lynch, National Bank of Canada, Caisse de depot et placement du Quebec and three others said they had struck an agreement to end the crisis in the asset-backed commercial paper market.

The key element of the deal was a plan to convert asset-backed commercial paper that is unmarketable into longer-term debt, thereby giving the market time to revive before the debt becomes due.

"A lot of people are going to be very unhappy with this," said one analyst. "You buy the asset-backed commercial paper and you think it's like cash."

But now, under the rescue agreement, it is converted into longer-term debt, and holders end up with some tough choices. Either they sell it at fire-sale prices or they wait, in some cases as long as eight years, for it to become due, he added.

[Mutual fund holders could feel pinch from Caisse's bailout plan]

However, the Caisse is pushing a deal that serves its own interests, but leaves another group of investors facing an ugly and totally unexpected hit. The folks who stand to take it in the chops are money market mutual funds, a supposed safe harbour.

Here's why anyone holding money market funds stands to get clipped: Commercial paper is seen as a low-risk holding, and commands prices close to its face value of 100 cents on the dollar. Long-term floating-rate debt, on the other hand, will initially trade at a discount to its face value, because it doesn't mature for years.

To make things worse, the commercial paper that is to be converted is backed by a host of assets - mortgages, car loans, credit card receivables - that many investors now don't want to own at any price.

So if commercial paper issued by Coventree and its peers does begin trading as floating-rate debt, it's likely to fetch 80 to 90 cents on the dollar.

For the mighty Caisse, this move is unimportant. It will simply shift its commercial paper holding from internal money market funds to internal bond funds, and losses, if any, will be spread over years.

Money market funds, on the other hand, can only hold debt that matures in the next 12 months. They would be forced to dump the bonds and take a loss.

[Apocalypse begins]

One part of his thesis is that central bankers are no longer in charge of the money and credit creating mechanism. If that truly proves to be right, and it looks like it now, no matter how much they panic and pile the cash in - like the Fed's $38bn on Friday - the problems will not go away until the whole derivatives and securitised debt pyramid has cleansed itself. It is that process which is now underway.

What specifically has changed? First and foremost, buyers of derivative and securitised assets will no longer accept blindly the ratings applied by ratings agency ‘models'. This will automatically reduce the flow of paper issued by the plethora of sub-prime brokers that still exist in the US, by the huge investment houses that packaged those and other arcane structured product instruments and by the private equity funds. Secondly, all of these instruments, if they can be issued at all, will cost more - that is the nature of risk aversion. Thirdly, and again automatically, this will tighten credit availability in the global economy ie, what is known euphemistically in markets as ‘liquidity'. Fourthly, it will mean that associated ‘riskless' trades - such as the carry trades - will be looked on with much more sceptical eyes. And that will be all it takes to reduce their size and scope.

A debt culture gone awry

The U.S. economy, once the envy of the world, is now viewed across the globe with suspicion. America has become shackled by an immovable mountain of debt that endangers its prosperity and threatens to bring the rest of the world economy crashing down with it.

The ongoing sub-prime mortgage crisis, a result of irresponsible lending policies designed to generate commissions for unscrupulous brokers, presages far deeper problems in a U.S. economy that is beginning to resemble a giant smoke-and-mirrors Ponzi scheme. And this has not been lost on the rest of the world.

This new reality has had unfortunate side effects that go beyond economics. As a banker working in the heart of the Muslim world, I have been amazed by the depth and breadth of anti-Americanism, even among U.S. allies, manifested in reactions ranging from fierce anger to stoic fatalism. Muslims outside the United States interpret America's policies in the Middle East not as an effort to spread democracy but as a blatant neocolonialist attempt to solve its economic problems by force. Arabs and Persians alike argue that America's fiscal irresponsibility has forced the nation to seek solutions through military aggression....

....What have Americans gained from their nation's mountain of debt? A crumbling infrastructure, a manufacturing base that has declined 60 percent since World War II, a rise in the wealth gap, the lowest consumer-savings rate since the depths of the Great Depression, 50 million Americans without health insurance, an educational system in decline and a shrinking dollar that makes foreign travel a luxury.

The best cars, the best bridges and highways, the fastest trains and the tallest buildings are all to be found outside America's borders. Supply-siders ignore the crucial distinction between, on the one hand, debt employed as an investment vehicle to enhance competitiveness and, on the other, debt used to pay off current expenses and to create even more debt.

Energy policy is kowtowing, not co-operating, critics charge

When the three leaders of North America met in Cancun, Mexico, last year to review progress on the Security and Prosperity Partnership, they agreed energy security was a top priority.

As the leaders prepare to gather next week in Montebello, that decision seems like a no-brainer. After all, we live in a world of dwindling and increasingly costly energy.

But for those who shudder at the continental co-operation the SPP espouses, it is a red flag....

....Prime Minister Stephen Harper says Canada is an energy superpower, with reserves of oil second only to Saudi Arabia. Yet we import close to one million barrels of oil a day to supply 90 per cent of market demand in Quebec and Atlantic Canada and about 35 per cent in Ontario.

Canada exports more than 1.6 million barrels of oil a day to the United States, close to two-thirds of our production. We are able to do this because of Alberta's tar sands, an energy motherlode believed to contain as much as 2.5 trillion barrels of oil. Production is expected to reach 5 million barrels a day by 2030.

But extracting dirty, heavy oil consumes huge amounts of water and natural gas and undermines Canadian efforts to cut greenhouse-gas emissions.

When it comes to natural gas, Canada meets domestic needs with minimal - though growing - recourse to imports. But we continue to sell more natural gas to the United States than we consume ourselves, even though Canada has less than nine years of proven reserves at current levels of production.

"Canada's not an energy superpower," said Gordon Laxer, director of the Parkland Institute, a research network at the University of Alberta. "It's an energy satellite."

Canada's current approach puts our long-term energy security at risk, Laxer said. "If Canadian governments don't look after Canadians, then who will? You can be sure the Americans are going to look after themselves."

Why we should worry about the Montebello talks

The term SPP is likely to draw blank stares from most Canadians, though hopefully that will begin to change after the upcoming summit of North American leaders – George Bush, Felipe Calderon and Stephen Harper – in Montebello, Que. The North American Security and Prosperity Partnership (SPP) was launched by the three NAFTA countries in March 2005. This is their third meeting, and the first held in Canada.

The SPP is the successor to the 1994 NAFTA, the next stage on the path to fully integrate the North American economy along the lines advocated by business and political elites. It is a NAFTA-plus initiative, but with several differences.

First, the SPP fuses economic integration and security integration, reflecting the reality of the post-Sept. 11 U.S. security paradigm.

Second, unlike NAFTA, the SPP it is not a treaty; it is an executive-to-executive agreement. It requires no legislative change, hence minimal parliamentary involvement, and thus is proceeding largely out of the public eye. Civil society organizations are

> excluded. But business, remarkably, has secured a privileged place for itself at the SPP table, with the creation a year ago of the North American Competitiveness Council. The NACC gives big business a hand on the wheel driving the SPP agenda.
>
> Third, the SPP is an umbrella for a dizzying array of projects: Some appear benign and others disturbing. However, because the public reporting on SPP initiatives is so devoid of substance, it is difficult to figure out which is which....
>
> ....The key danger is this: SPP agreements progressively shrink Canada's room to manoeuvre in key policy areas. This is political integration by stealth – something that deep integration proponents vigorously deny. The result is that Canadian sovereignty and democracy over time become increasingly hollow.

[Where's the transparency in the 'Security' and 'Prosperity' Partnership?]

> In dismissing critics of the SPP as conspiracy theorists, government and business proponents of the deal point to the more benign aspects of regulatory harmonization, such as harmonizing the colour of margarine, protecting North American birds or dealing with pandemics.
>
> What they fail to talk about is that the SPP also calls for energy-sector integration and a potential common external tariff, which will make independent Canadian policies on the environment and energy impossible.
>
> The bulk of the SPP agenda is actually advanced outside these highly publicized leaders' summits through dozens of "working groups" that meet throughout the year. Less publicized meetings have brought corporate leaders, top military brass and government officials from all three countries to discuss North American integration....
>
> ....Stephen Harper promised to take all major international treaties before the House but our elected officials have been left in the dark regarding the SPP. In fact, there has been no parliamentary debate about the SPP in any of the three countries.
>
> It's about time the leaders of all three NAFTA countries respect the fundamentals of democratic accountability and open the SPP up to public and parliamentary scrutiny.

[Controversy follows three-country accord into Canada]

> To some, it is a "corporate coup d'etat," a conspiracy by big business to turn Canada into the 51st state by stealth. Others see it as a plot to destroy the U.S. by forcing it into a North American union with "socialist Canada" and "corrupt Mexico."
>
> Its defenders hail it as a bold, visionary plan, the only way to give the three neighbours a fighting chance against the twin threats of global terrorism and robust economic rivals such as China.
>
> Skeptics argue it's nothing but an eye-glazing bureaucratic boondoggle, with all the sex appeal of the phone book....

....Its stated mission is "to keep our borders closed to terrorism yet open to trade" by fostering "greater co-operation and information-sharing" in security protocols and economic areas such as product safety.

Little-known in Canada, the accord, if fully implemented, could affect almost every aspect of Canadian life, from what drugs you can access, to whether you can board a plane and even what ingredients go into your morning cornflakes.

While you may not have heard of the SPP, you may have heard about some of the controversies it has sparked: Canada's adoption of a no-fly list; negotiations to lower Canada's pesticide standards to U.S. levels; or fears the deal will lead to bulk-water exports.

Security and Prosperity Partnership Debate on CBC Radio's The Current (Part 2, Aug 20th, 2007)

Today the current leaders of Canada, Mexico and the US are meeting to discuss how to further the Security and Prosperity Partnership. However, critics aren't crazy about the tying our countries any closer together than they already are. Even more disturbing to some is what they believe to be the secretive nature of the discussions. It seems everything if up for debate on this partnership.

Even the buzz words around it mean very different things to different people. We asked Maude Barlow of the Council of Canadians and Thomas d'Aquino of the Canadian Council of Chief Executives for some help defining terms that often come up in these discussions: Harmonization, Prosperity, and Security.

To continue the debate over the Security and Prosperity Partnership or SPP and what it means for Canada we were joined by two people. John Manley is a former Minister of both Finance and Foreign Affairs, as well as Deputy Prime Minister. He is now with the law firm McCarthy Tetrault and he was in Ottawa. And Gordon Laxer is a professor of political economy and the Director of the Parkland Institute at the University of Alberta.

Mexico looking for deal on labour with Canada

Canada and Mexico will discuss greater mobility for Mexican workers seeking jobs in the north.

Already, Canada welcomes agricultural workers, and Goicoechea would like to see those permits also extended to people in the oil industry, construction business and hotel services....

....Goicoechea says a deal would benefit both countries. Mexico has a labour surplus, while Canada has a shortage of skilled workers.

Quebec resort town braces for summit protests

Demonstrators gathered Sunday in a warm-up rally in Ottawa a day before U.S. President George W. Bush and Mexican President Felipe Calderon were scheduled to meet with Prime Minister Stephen Harper in Montebello, Que., to discuss border security and free trade....

....Many protesters said they are concerned about Canada losing control of its energy, water resources and border as such initiatives as the SPP treaty increase and expand.

While Harper has offered assurances that won't happen, many of the protesters said Sunday they don't believe him....

....Protesters will be kept off the grounds of the Fairmont Chateau Montebello by a fence that is four metres high.

Canadian government officials said the three leaders will be able to see and hear the protesters through a video link inside if they choose to watch.

[Ex-U.S. envoy backs Canada's Arctic claim]

Prime Minister Stephen Harper's campaign for Arctic sovereignty has received a boost from former U.S. ambassador Paul Cellucci, who appears to be renewing a personal plea to Washington to recognize Canadian authority over the Northwest Passage.

The Americans have long insisted the passage is an international waterway, but Cellucci told CTV's Question Period yesterday it's time to change course with a view to bolstering continental security.

"I think, in the age of terrorism, it's in our security interests that the Northwest Passage be considered part of Canada," he said.

"That would enable the Canadian navy to intercept and board vessels in the Northwest Passage to make sure they're not trying to bring weapons of mass destruction into North America. ... My hope is that the United States will take a second look at our long-standing position."

It's not the first time Cellucci has made the pitch. He spoke out on the subject on a trip to the North in 2004 and reiterated his views last year. But his latest effort, on the eve of a North American summit among Harper, U.S. President George W. Bush and Mexican President Felipe Calderon, comes at a welcome time for the Canadian prime minister.

Arctic sovereignty isn't on the formal agenda for the two-day conference in Montebello, Que., but it could come up during a one-on-one sidebar session between Harper and Bush scheduled for today.

[Shell's rocky return]

Some of the holes hit oil, and Fox and the other oil men felt pretty good about what they found.

But none of the discoveries was developed -- the price of oil was too low and the finds too remote -- and Shell abandoned Alaska's Arctic.

Now Fox, 55, and Shell are mounting an aggressive return to the polar ocean, staking hundreds of millions of dollars to lease vast offshore acreage, staff an Anchorage office and assemble a flotilla of drilling ships to sink more holes in the Beaufort Sea.

The reason for the return is the high price of oil plus potential for big discoveries, says Fox, now the company's Alaska asset manager.

"Conditions are right for us to re-enter and give it another shot," he says. "And we are committed in a very big way."

If Shell and other companies that might follow are successful, they could open a vast frontier and ignite a potentially dazzling new era for Alaska's most important industry, oil and gas.

[Who resolves Arctic oil disputes?]

Russia's planting of a flag at the North Pole this month has set off a race for control of the Arctic, with five nations preparing to make claims to the seabed at the top of the world.

Since Aug. 2, when a Russian research submarine placed the flag on the seabed 13,000 feet below the surface, the Arctic has suddenly moved onto the international stage. Denmark dispatched icebreakers to survey potential claims in the far north, where the US Coast Guard ice-breaker Healy is already engaged in a mapping mission that would bolster a US claim. Canada, which announced it will build two military outposts in the region, is expected to follow suit....

....All five states are expected to claim part of the Arctic Ocean, legal experts say, together grabbing about 90 percent of currently unclaimed seabed.

They're doing this because global warming is melting much of the Arctic's ice cover, raising the possibility of increased shipping and oil and gas exploration. According to the US Geological Survey, the region may contain 25 percent of the world's remaining oil and gas reserves.

[Tougher rules urged to protect Arctic]

The Arctic could face “irreparable damage” unless tougher rules are made to curb the scramble by world powers for the region’s resources, a leading international environmental group has warned.

WWF – formerly the World Wildlife Fund – called for an Arctic treaty or other multilateral agreement to prevent conflict and help the region survive the severe impact of climate change.

The melting of the Arctic ice-caps is opening up new opportunities for oil exploration and shipping, raising fears that territorial disputes between states such as Russia, Canada and the US could run out of control.

The 'ticking time bomb' under melting ice in Arctic

For thousands of years, the fossil fuel deposits lay locked under the ice and inaccessible. Ironically, the very process of burning fossil fuels releases massive amounts of carbon dioxide and forces an increase in the Earth's temperature, which in turn melts the Arctic ice, making available even more oil and gas for energy. Burning these potential oil and gas finds would further increase carbon dioxide emissions in coming decades, depleting the Arctic ice even more quickly.

But there is an even more dangerous aspect to the unfolding drama in the Arctic. While governments and oil giants are hoping the melting ice will allow them access to the world's last treasure trove of oil and gas, climatologists are deeply worried about something else buried under the ice that, if unearthed, could wreak havoc on the biosphere, with dire consequences for human life.

Much of the Siberian sub-Arctic region, an area the size of France and Germany combined, is a vast frozen peat bog. Before the most recent Ice Age, the area was mostly grassland, teeming with wildlife. The coming of the glaciers entombed the organic matter below the permafrost, where it has remained ever since. Although the surface of Siberia is largely barren, there is as much organic matter buried underneath the permafrost as there is in all of the world's tropical rain forests.

Now the permafrost is thawing on land and along the seabeds. If it occurs in the presence of oxygen on land, the decomposing of organic matter leads to the production of carbon dioxide. If the permafrost thaws along lake shelves, in the absence of oxygen, the decomposing matter releases methane. Methane is the most potent of the greenhouse gases, with a greenhouse effect 23 times that of carbon dioxide.

'25 years of Arctic ice left'

Scientific institutes in the U.S. and Japan confirmed yesterday the Arctic Ocean ice cover has shrunk to the smallest size ever recorded, prompting a startling prediction from one expert that the world could witness a total summer melt within 25 years.

The latest findings support an alarm issued last week by another climate expert at the University of Illinois that all-time records for maximum meltage of the polar ice cap will be "annihilated" by the time Arctic temperatures start turning colder in mid-September.

"Everyone is seeing the same thing," Mark Serreze, a senior researcher with the National Snow and Ice Data Centre, based in Boulder, Colo., said yesterday.

"The sea ice seems to be on this death spiral," he said. "And this is not some nebulous thing like global temperature rises. You can see this with your own eyes."...

....But what worries researchers most is that there's still a month of melting left to go this summer. "The absolute minimum is typically the first or second week of September," said Serreze, "but we've already set a record. That is amazing. That is just an eye-opener. We appear to be on the fast track of change." The disappearance of Arctic sea ice is widely viewed not only as a key early indicator that climate change is well under way, but also as a portent of rapidly escalating global warming.

Reduced ice cover and, thus, a darkened polar region, means the planet will absorb even more of the sun's energy and trigger higher temperatures, scientists believe.

[War exercises fill Arctic full of lead]

Canada's increased military presence in the Arctic poses environmental dangers as bullets, shells, shell casings and other war-game detritus wind up in ecologically sensitive waters and tundra, critics say.

The Canadian Forces conducted four operations in the Arctic this year, one more than in 2006, and Prime Minister Stephen Harper plans to build a deep-sea port and military training centre to bolster Canada's claim to the region.

[Green, and getting greener]

The ice cap on the world's largest island is melting at an alarming rate. The ice cap - which along with Antarctica holds 98 per cent of the world's reserve of fresh water - now loses 100 to 150 cubic kilometres of ice every year, more than all the glacial ice in the Alps. And this scary statement is often repeated: If Greenland's ice cap were to melt completely, oceans would rise by seven metres, flooding New York and London and submerging island nations. While this could take centuries, global warming is heating the Arctic faster than any place else.

[Canada to back “bogus” emissions plan: May]

“The notion of ‘aspirational’ targets is bogus,” May told CanWest News Service on Sunday. “This is really dangerous stuff. We need to be negotiating serious targets.”

The draft APEC statement does say the 21 countries would “work toward the goal of reduction in energy intensity across the APEC region by at least 25 per cent by 2030 (2003 base year).” But the goal is not a binding commitment with nation-by-nation energy-reduction targets.
The proposed document also touts the importance of preserving forests as “carbon sinks” and promoting nuclear power to reduce greenhouse gas emissions.

And it expresses support for “the initiative by the United States to convene a dialogue process among major economies” to create an alternative to the Kyoto Protocol, the 1997 international accord that contained specific greenhouse gas-reduction targets.

> The Kyoto accord — signed by more than 160 countries, but not by Australia or the U.S. — has been largely derailed in Canada and elsewhere as governments have failed to meet CO_2-reduction deadlines.

[Baird disses talk of climate-change clash]

> The Harper government is rejecting suggestions from former Alberta premier Peter Lougheed that its climate-change policies would throw the country into constitutional crisis.
>
> Environment Minister John Baird said yesterday that the government is committed to working constructively with the provinces and wouldn't repeat mistakes that he said were made in the days of former prime minister Pierre Trudeau.
>
> "Our government would never do what was done with the national energy policy in the early '80s," Baird said. "I think we can take tough, aggressive measures to tackle global warming and at the same time work constructively with the provinces."
>
> Lougheed, who led Alberta through the squabbles over the controversial National Energy Program that was designed to give the federal government more control over his province's oil resources, said new disputes over federal environmental standards would provoke a clash "10 times greater than in the past."

[Atlantic yields climate secrets]

> Using instruments strung out across the Atlantic, a UK-led team shows that its circulation varies significantly over the course of a year.
>
> Writing in the journal Science, they say it may now be possible to detect changes related to global warming.

[Warming Will Exacerbate Global Water Conflicts]

> A few miles south of Fresno, Steve Arthur is looking the other way for water. His company is working around the clock drilling wells to irrigate fields in California's 400-mile-long Central Valley, one of the most productive food-growing areas in the world.
>
> "People are really starting to panic for water," said Arthur, whose father started drilling wells in 1959. They must drill ever deeper to tap the sinking water table. "Eventually, the water will be so deep the farmers won't be able to afford to pump it," he said. "There's only so much water to go around."
>
> As global warming heats the planet, there will be more desperate measures. The climate will be wetter in some places, drier in others. Changing weather patterns will leave millions of people without dependable supplies of water for drinking, irrigation and

power, a growing stack of studies conclude.

[Egyptian villages fight water war]

The land of the Nile is seeing a rising tide of protests at a shortage of drinking water amid accusations the government would rather irrigate golf courses than slake the thirst of villages.
A wave of demonstrations and ensuing clashes with police in recent weeks has left dozens injured in a country where the Nile River provides 95 percent of fresh water and irrigation uses up 80 percent of that.
The Arab world's most populous nation, with 76 million people, has a water deficit of 20 billion cubic metres (706 billion cubic feet) a year, according to government statistics.

Many inhabitants of the desert nation's villages are forced to resort to buying jerry cans of water from occasional tanker trucks or improvising wells to bring up often unclean water.
"Last week the tap water was yellow and smelled bad," said Nefertiti, 23, who lives in the Nile delta village of Borg el-Borollos, to the north of Cairo, declining to give her last name.
Water-borne illness, diarrhoea and dehydration are common in Egypt and "the thirsty," as the road-blocking protesters have been dubbed by the Egyptian press, say the government is doing nothing to end their plight.

Some accuse the government of prioritising water for the wealthy and for tourist destinations while villagers often have to pay water bills even when their taps are dry.

New, middle-class residential developments outside Cairo and the requisite golf courses and swimming pools further strain resources.

[What A 250-Million-Year-Old Extinction Event Can Tell Us About The Earth Today]

More than 90 percent of all marine species disappeared from the Great Bank of Guizhou and other end-Permian fossil formations 250 million years ago. Land plants and animals suffered similar losses. Douglas Erwin, curator of the Paleozoic invertebrates collection at the Smithsonian National Museum of Natural History, has dubbed this event "the greatest biodiversity crisis in the history of life." An unusually long period of time passed before biological diversity began to reappear. Scientists disagree on the causes of this extinction. However, nearly all explanations cite the high levels of greenhouse gases, including carbon dioxide, low levels of oxygen in the oceans and high levels of toxic gases.

In 1991, scientists reported that the largest known volcanic event in the past 600 million years occurred at the same time as the end-Permian extinction. Magma extruded through coal-rich regions of the Earth's crust and blanketed a region the size of the continental United States with basalt to a depth of up to 6 kilometers. The eruptions that formed the Siberian Traps not only threw ash, debris and toxic gases into the atmosphere but also may have heated the coal and released vast quantities of carbon dioxide and methane into the atmosphere.

Rapid release of these greenhouse gases would have caused the oceans first to become acidic and then to become supersaturated with calcium carbonate. In the July Bulletin, Payne presents evidence that underwater limestone beds around the world eroded at the time of the end-Permian extinction. This finding, coupled with geochemical evidence for changes in the relative abundances of carbon isotopes, strongly suggests an acidic marine environment at the time of the extinction. The rock layers immediately covering this eroded surface include carbonate crystal fans, which indicate oceans supersaturated with calcium carbonate.

"This end-Permian extinction is beginning to look a whole lot like the world we live in right now," Payne said. "The good news, if there is good news, is that we have not yet released as much carbon into the atmosphere as would be hypothesized for the end-Permian extinction. Whether or not we get there depends largely on future policy decisions and what happens over the next couple of centuries."

[Forget biofuels - burn oil and plant forests instead]

It sounds counterintuitive, but burning oil and planting forests to compensate is more environmentally friendly than burning biofuel. So say scientists who have calculated the difference in net emissions between using land to produce biofuel and the alternative: fuelling cars with gasoline and replanting forests on the land instead.

They recommend governments steer away from biofuel and focus on reforestation and maximising the efficiency of fossil fuels instead.

The reason is that producing biofuel is not a "green process". It requires tractors and fertilisers and land, all of which means burning fossil fuels to make "green" fuel. In the case of bioethanol produced from corn – an alternative to oil – "it's essentially a zero-sums game," says Ghislaine Kieffer, programme manager for Latin America at the International Energy Agency in Paris, France.

What is more, environmentalists have expressed concerns that the growing political backing that biofuel is enjoying will mean forests will be chopped down to make room for biofuel crops such as maize and sugarcane. "When you do this, you immediately release between 100 and 200 tonnes of carbon [per hectare]," says Renton Righelato of the World Land Trust, UK, a conservation agency that seeks to preserve rainforests.

[As ethanol use rises, so do concerns]

Two years after lawmakers put the kibosh on a gas additive that became a national scourge, the country's new recipe for fuel is under the microscope for its potential to cause the environmental problems it was meant to prevent.

While environmental regulators are confident ethanol, non-drinkable grain alcohol, won't create a repeat of the MTBE debacle, questions remain about what it will do when it makes its way from gas stations into the ground.

"You're trading one problem for another," said Gary Brown, an environmental engineer and president of Montgomery County-based RT Environmental Services Inc. "The thought in Pennsylvania is that because people aren't using MTBE anymore, you don't have to worry about MTBE releases coming from tanks ... Now you're getting ethanol in water. You're just getting a different kind of contamination."....

....Because it rapidly degrades in the environment, ethanol generally isn't viewed as a significant threat. But studies show that when ethanol-laced fuel leaks into the ground, other gas components, including cancer-causing benzene, tend to travel farther in groundwater than they do when ethanol isn't in the mix.

Coal plants keeping the lights on

A temporary shortage of electricity from nuclear reactors in Ontario is forcing the province to run its coal plants longer to keep the lights on, causing a spike in greenhouse gas emissions and a potential headache for Premier Dalton McGuinty.

Electricity output from the province's four pollution-spewing coal-fired plants rose 19 per cent during the three-month period ending June 30, compared with the corresponding period a year ago. Greenhouse gas emissions climbed in lockstep with that increase.

The province has been forced to rely on the coal plants for more of its electricity production because of the unplanned outage of two reactors at the Pickering nuclear station. Pickering A units 1 and 4 have been down for maintenance since early June and are expected to remain offline for another three weeks as work continues on a backup electrical system, Pierre Charlebois, chief operating officer of Ontario Power Generation, said yesterday. The government's power utility owns and operates three nuclear stations and supplies 70 per cent of the province's electricity.

"We are dealing with a one-time situation right now and that has to be rectified," Mr. Charlebois told reporters.

The province's fragile electricity system is expected to be a major issue during the campaign for the Oct. 10 election. Mr. McGuinty promised during the 2003 campaign that he would shut down the province's coal-fired plants by the end of 2007 and replace them with cleaner sources of electricity. But he has twice backtracked on that pledge and now says the coal plants will not disappear until 2014.

OPG hurt by Pickering's poor power performance

But the string of outages at Pickering comes at a sensitive time for Premier Dalton McGuinty, who wants to rejuvenate and expand the province's nuclear fleet to help wean the province from coal-fired power and associated emissions.

With an election two months away, emissions from coal are back on the rise and several nuclear reactors have proven unreliable. Had the summer been hotter, experts say, the reactor outages could have left Ontario in a difficult power squeeze.

"In theory Premier McGuinty's plan is already out the window," said Dan McDermott with the Sierra Club of Canada.

> Pickering A, the oldest of Ontario's generators, has been a particular trouble spot. Reactor units 2 and 3 were mothballed in 2005, but units 1 and 4 were refurbished in 2005 and 2003, respectively, at a cost of $2 billion. In early June both units were taken offline for unplanned maintenance on a backup system and aren't expected to be back in service until early September.
>
> OPG reported yesterday that during the second quarter Pickering A's capacity factor — that is, electricity generated during the period as a percentage of potential output — was 61.6 per cent, down dramatically from 84.3 per cent a year ago.

Bruce nuclear reactor taken down unexpectedly

> A unit at the Bruce nuclear power plant that was only recently returned to service after an unplanned two-week outage was abruptly taken down again Thursday and will likely stay that way for about 10 days....
>
> ....Bruce Power, one of the province's key electricity producers, operates the nuclear power plant on the shores of Lake Huron.
>
> It is currently in the process of restarting Units 1 and 2, two mothballed reactors that are due to go on line in 2009.

Radioactive waste project east of Toronto years, millions behind schedule

> A planned cleanup of low-level radioactive waste near the shores of Lake Ontario - the largest project of its kind in North America - remains years behind schedule and millions of dollars over budget, leaving some residents of this picturesque southeastern Ontario town both frightened and angry....
>
> ....The Port Hope Area Initiative was designed to manage radioactive waste left in the city's soil after decades of dangerously lax standards, said Glenn Case, manager of projects for the Low-Level Radioactive Waste Management Office.
> The soil is classified as low-level historic waste because it was contaminated at a time when radiation was not seen as severe a threat to human and animal health, and "the original producers cannot reasonably be held responsible."

Insulation innovation holds promise for true efficiency

> Owens Corning developed fibreglass in 1932 and since then, fibreglass batts have become a standard feature of Canadian homes. The design and insulation of wall frames hasn't changed much in many years, so no one questions it. But the fact is, fibreglass is really a rather poor insulator. The open structure and low density of this material allows air to move right through, sapping energy performance enough to foster frosty walls and some pretty scary, real-world energy stats. To discover the discrepancy is between

actual thermal performance and theoretical energy ratings of fibreglass, you need to look at two pivotal research studies.

The first comes from the Roof Research Center at the Oak Ridge National Laboratory in Tennessee. Scientists there discovered that fibreglass attic insulation delivers only 50 per cent of its rated thermal performance at —28 C. As cold, dense air makes its way into the vented attic space, it moves down through the fluffy fibreglass in a way that doesn't happen when batts are rated in the lab. And the colder the air gets, the worse fibreglass performs.

Another study is Canadian, conducted by Dr. Tony Shaw at Brock University in St. Catharines. He analyzed the energy consumption of two nearly identical new homes built side-by-side to code standards. The difference between the two structures was the walls. One had 2x6 wall studs insulated with R-19 fibreglass batts; the other had walls with structural insulated panels (SIPs) rated at R-17. Under wintertime field conditions, the walls of the SIPs home delivered their exact rating – R-17. The internal, closed cell foam insulation in these panels isn't subject to air infiltration, so thermal performance remained high and consistent.

The walls of the fibreglass-insulated, stud-frame home, on the other hand, performed at an actual level of only R-4 because of the inevitable air movement within the hollow wall cavities. Hard to believe, but true. You can put all the building wrap and siding you like around the outside of a house, but air still wafts through wall cavities, carrying energy with it. In the Brock study, the code-built, stud wall home lost more than 60 per cent more energy than the SIPs home, while the SIPs structure cost less than 5 per cent more to build.

As Big Oil pumps Alberta for profit, the province's royalty take is shrinking Is it time to get greedy?

Royalties have existed as long as humans have spun wealth from the world's underground riches, digging and drilling to produce personal and collective fortunes....

....The owner of a resource, be it silver in Greece or oil and natural gas in Alberta, receives a royalty as a right of ownership from the person producing the resource and aiming for their own profits. But what the rate should be is a difficult debate, as the arguments are relative in the absence of absolutes – reflected in the fact that there are a thousand or so royalty systems for energy around the world. The question is also clouded and confused by the word at the heart of the argument: Fair.

Royalties paid on oil and natural gas production in Alberta are one of Canada's most crucial economic calculations. Within two weeks, the provincial government receives an extensive report from a six-member panel that conducted a public review of royalties, taxes and other fees paid by energy producers – with a core mandate to determine if citizens are getting their fair share. The report, and what rookie Premier Ed Stelmach's government does with it, could have significant repercussions across the Canadian economy.

Arab firm plans big investments in Canada

> Leading Middle Eastern energy investment firm, United Arab Emirates-based Abu Dhabi National Energy Co. (TAQA), is sharpening its pencils to move into Canada in a major way.
>
> Chief executive Peter Barker Homek said in Calgary on Thursday that $3 billion to $4 billion is planned for investment in the next 12 months in core oil and gas producing assets, besides other energy related sectors.
>
> First on the list will be efforts to triple both probable and proven reserves and output of conventional oil and natural gas in Western Canada to about 500 million barrels and 100,000 barrels per day of oil equivalent, respectively, over the next 12 months....
>
> ....Dave Pearce, president of TAQA North, said the target would be primarily reached through further acquisitions, besides the development of existing assets in Alberta, Saskatchewan, Northwest Territories and B.C.
>
> "As a rule of thumb, for an acquisition now in the WCSB (Western Canadian sedimentary basin), the cost per flowing barrel of conventional crude is $45,000," he said.

Report: Oil Sands Costs up 55%

> Last year, many of the top players in the oil sands sector either announced changes to their plans or reported cost increase, leading to "an average rise in capex per peak flowing barrel over the year of 32 percent for integrated mining projects and 26 percent for in-situ developments. Since 2005, overall costs per peak flowing barrel have increased by around 55," Wood Mackenzie said in a statement.
>
> "Marginal economics have always been a concern for companies operating in the oil sands, breakeven prices are high and rates of return relatively low in comparison with conventional projects, particularly for mining projects," said Conor Bint, Upstream Research Analyst - Canada and Alaska for Wood Mackenzie.

Shell rakes in profits from Canadian oil sands unit

> The huge profit margin from bitumen mined from tar sands in northern Alberta has persuaded Shell to make more financial disclosure in future about the Canadian operation, which is criticised by environmentalists for its carbon emissions.
>
> According to Shell’s 2006 accounts, oil sands contributed $651 million in profits out of a total of $12 billion for the upstream business of producing crude oil. However, the synthetic crude made from dirty bitumen generates a posttax profit of $21.75 per barrel, compared with Shell’s average profit per barrel of crude of just $12.41.

Alberta will not stop oilsands firm from doing seismic tests in pristine lake

> Sustainable Resources Development Minister Ted Morton said he sympathizes with residents of Marie Lake, but the government must follow its procedures for energy development proposals.
>
> “If you start jumping around you have basically policy chaos,“ said Morton, whose department quietly approved the testing last week. People found out about the decision through the media.
>
> “I appreciate the frustration of the people of Marie Lake at the prospect that there might be some major development underneath that lake. I‘m sympathetic to that. But I‘m also responsible for ensuring the orderly development of this kind of decision-making.“
>
> Morton said the province has imposed strict rules on the tests that are to be done by Calgary-based Oilsands Underground Mining Corp., which will include the firing of loud air guns in the water and blasting of dynamite on shore.

[Trains on track to play key role in bioeconomy]

> Recognizing Ontario's existing rail networks, particularly in the north, is important if the government is serious about developing a new industry around what's often referred to as "forest biofibre."
>
> In Ontario, it appears the government is getting serious about what to do with the province's abundant supply of forest biofibre, which is often just burned at the side of logging roads. In March it submitted its draft "Forest Biofibre Policy" for comment on the environmental registry. The Ministry of Natural Resources is now in the process of reviewing all comments and making necessary changes before coming out with an official policy.
>
> "As the province's largest power user it is anticipated that the forest industry will use forest biofibre to replace fossil fuels to reduce the costs of heat and electricity for their manufacturing processes and at the same time offset significant electrical demand on Ontario's power system," says the draft.

[Scarcity in the midst of surplus]

> THE president, Luiz Inácio Lula da Silva, has just returned from a five-country tour taking in Mexico and Central America, where he touted Brazil's claims to be an energy superpower. Blessed with sunshine, watered by huge rivers and close to self-sufficiency in oil, Brazil's energy potential is indeed enormous. But for various reasons, ranging from government lethargy to environmental lobbies, it runs a serious risk of energy shortages at home.
>
> Acende Brasil, an electricity-industry body, predicts a 28-32% chance of blackouts by 2012 if the economy grows at 4.8% a year (the government's forecast is 5%). Officials dismiss this as alarmist. But Lula is worried enough to have attended a recent meeting

of his National Energy Policy Council for the first time....

....Another possibility is to generate electricity from sugar cane, in conjunction with ethanol production, though the technology for this is still fairly new. Using sugar cane, Brazil produces far more ethanol per hectare, with fewer emissions, than the United States does with its corn-based equivalent. McKinsey, a consultancy, reckons that if the area under sugar cane were doubled, fertiliser applied and farming mechanised, Brazil's ethanol output would increase from 17 billion litres (4.5 billion American gallons) a year today to 160 billion litres by 2020.

But ramping up ethanol production has drawbacks. Although very little of Brazil's sugar cane is grown in the Amazon region, expanding the crop could put pressure on the rainforest nonetheless, by pushing ranching and soyabean farming farther into the interior.

Compressed Gas Hits the Metals Markets

In his book GeoDestinies, Walter Youngquist argues that the fuel of the future will be electricity, rather than a liquid we pump from the ground. Wandering along through gridlocked traffic I saw all around me a vital interim step between fossil fuel liquids and electricity: Compressed Natural Gas (CNG). You may not see the connection, but for me – I live in China and study the commodities markets there – the light bulb clicked on. Presently several cities in China run their entire public transportation systems on CNG: from taxis and buses to city utility vehicles, it's all CNG. Shortly, as the world wakes up to the fact that crude oil supply will soon peak and then decline, there will be a panic for better alternatives for our transportation and delivery networks.

The dark continent

With nearly 1 billion people, Africa accounts for over a sixth of the world's population, but generates only 4% of global electricity. Three-quarters of that is used by South Africa, Egypt and the other countries along the north African littoral.

The need for more power stations in the rest of the continent has long been recognised, but most of the attempts at electrification in the 1970s and the 1980s failed. In some countries, dictators pillaged power stations for parts and fuel. In others, power stations were built but not maintained. Turbines were run at full capacity until they broke, then were abandoned. By some counts, only 17 of Nigeria's 79 power stations, many dating from this period, are still working; the country's demand for power is an estimated 7,600 megawatts, against an actual operating capacity of 3,500MW. The World Bank reckons that 500m sub-Saharan Africans are without what it calls "modern energy".

Distressed denim trend costs Mexican farmers the earth

Mariano Baragán looked down at the blue-grey crust peeling off the field he irrigates from a canal. Nearby factories were the problem - dozens of them, which are dedicated to doing to jeans in hours what used to take years of wear.

"As well as being blue, it burns the seedlings and sterilises the earth," the 67-year-old subsistence farmer said. And the cause? A wry smile hovered on his lips. "It's the fashion."

A closer look at 'Escape From Suburbia' by Dale Allen Pfeiffer

The portion of the film dealing with South Central Community Farm illustrates both the vulnerability of community gardens within our socioeconomic system and the plight of poorer people in dealing with what is to come. The story of the SCC Farm should stand as a warning beacon to all community farms. They only exist by the grace of corporations and government. Until community gardens are recognized as vital to community health and are protected by law, they will remain vulnerable whenever the government or some powerful investor wishes to appropriate the land. As long as we continue to live under the current socioeconomic system, then community gardens will require strong legal protections to keep them safe.

The fate of SCC Farm, taken in conjunction with the fate of New Orleans' poorer residents, demonstrates that the poor will not be cared for. Instead they will be preyed upon and will suffer the brunt of the coming collapse. In truth, the working class, and in particular the lower working class, is the alternative energy source the elite intend to use to replace their consumption of fossil fuels. And this is the system they are quietly working to set in place.