ODAC Newsletter, Monday 26 November

Posted by Doug Low on November 27, 2007 - 9:00pm in The Oil Drum: Europe
Topic: Miscellaneous

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11/ Ali Morteza Samsam Bakhtiari

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1/ The penny begins to drop, a bit late

Comment: Note that the three US articles are from columnists, not ‘regular articles’, as was last Monday’s We face a crude awakening over oil prices in the UK’s Telegraph (Liam Halligan’s column, Economics Editor).

1a/ Demand, and high oil prices, are here to stay (Houston Chronicle, Sat 24 Nov)

http://www.chron.com/disp/story.mpl/business/steffy/5325629.html

Comment: Loren Steffy is the Chronicle's business columnist.

> ... Just a few weeks ago, we wrote stories about $90 oil. A couple of months before that, it was $80. So far this year, oil prices have almost doubled. Pick your marker. They all bear the same message: The oil market is changing.
>
> Oil economists and geologists debate whether world oil supplies have peaked. In the markets, though, the debate is over.
>
> Oil will hit $100 for the same reason it hit $90. We market watchers can twitter about inventories, warm winters and the role of trading, but the rising price of oil is driven, ultimately, by the most basic concept in economics: Demand is rising faster than the supply.
>
> ... Hundred-dollar oil is a milestone that comes with a lingering question: Is it simply the top of a spike, or are prices moving to a new plateau?
>
> That probably won't happen right away, but sooner or later, $100 oil will be the norm, and we'll look back on the $80 a barrel of late summer with the same fondness with which we recall the $11 a barrel of the late 1990s.
>
> ... At some point, though, we must come to terms with the price trend that moves against us. Our best weapon is a portfolio of viable alternative fuels and conservation programs that can slow our rising demand for petroleum.
>
> It won't replace it, but it can take the edge off higher prices.
>
> Hundred-dollar oil isn't a crisis. It's just a number. But it's a number that serves as a reminder of the market's changes and of the crisis that looms with inaction.

1b/ Threat of $100 crude raises global alarm (Financial Times, Wed 21 Nov)

http://www.ft.com/cms/s/0/8d1227be-9868-11dc-8ca7-0000779fd2ac.html?ncli...

Comment: The IMF (International Monetary Fund) wakes up to the fact that the current financial / oil crises are not just about to go away, and in fact could turn into something rather nasty. It seems rather odd that the IMF is sounding louder alarm bells regarding the current energy (oil) crisis than the IEA, which still forecasts an energy crisis as several years away in contrast to the IMF's possibly here and now scenario.

Highlight from the article:
Simon Johnson, the International Monetary Fund's chief economist, shares that concern. "We have a potential collision between a 21st century financial crisis and a good old-fashioned 1970s oil shock," he said. "There is the potential for a 'perfect storm'... There is still a risk of a serious supply shock. We have not really had one. We've had fears, and small supply interruptions, but nothing really serious," said Mr Johnson. "So this situation is quite precarious."

> Oil hovered on the brink of $100 a barrel on Wednesday. Mixed data on US crude inventories did not quite push it over the threshold. But the world is having to accustom itself to the idea of a three-figure oil price. The implications for the health of the world economy are troubling.
>
> "Until recently, there has been less concern about oil in the $90s than there was when it was $60 or $70. But it is obvious that oil at $100 is going to have much more impact than oil at $70," said Daniel Yergin, chairman of Cambridge Energy Research Associates.
>
> "Over the next few weeks, we are going to see these prices flowing through to US consumers, at a time when we have other serious economic problems."
>
> Simon Johnson, the International Monetary Fund's chief economist, shares that concern. "We have a potential collision between a 21st century financial crisis and a good old-fashioned 1970s oil shock," he said. "There is the potential for a 'perfect storm'."
>
> Until now, the world economy has defied the soaring price of recent years, delivering the strongest global growth for decades.
>
> In April, the IMF set out an explanation that made a distinction between whether the oil price rise was caused by shortages of supply or strong demand. A demand-led price rise, driven by rapid expansion in emerging economies such as China and India, could be accompanied by stronger global growth, it argued.
>
> However, Mr Johnson suggests the rise towards $100 is starting to look more like a supply shock.
>
> ... "There is still a risk of a serious supply shock. We have not really had one. We've had fears, and small supply interruptions, but nothing really serious," said Mr Johnson. "So this situation is quite precarious."

1c/ Rod Dreher: Reaching our peak oil supply (The Dallas Morning News, Sun 25 Nov)

http://www.dallasnews.com/sharedcontent/dws/dn/opinion/points/stories/DN...

Comment: Rod Dreher is a Dallas Morning News editorial columnist. An excellent summary discussing what post-Peak might actually mean for Americans, more specifically those living in / near Dallas. It is exceptionally rare to see a mainstream newspaper (anywhere) that goes beyond the global oil demand is outstripping supply message, and discusses what this implies for society.

But the price of oil affects far more than our daily commutes. Our entire consumer economy is built on the idea that oil will be relatively inexpensive and infinitely available.

A reliable and affordable supply of oil makes globalization possible. Wal-Mart, for example, wouldn't be able to fill its shelves with consumer goods made for less in overseas factories if not for the ability to ship these products inexpensively. Within our own borders, food is cheap and plentiful in large part because oil is. One reason we've built bigger houses – the average house size has doubled since the 1950s – is because we can afford to heat and cool them.

In fact, cheap oil has made development in Dallas and the entire Sunbelt possible.

But what if it's ending? The authoritative International Energy Agency recently warned that the price of oil would remain high for the foreseeable future because of supply shortages. China and India are developing rapidly and consuming vast amounts of oil.

... If they're right, peak oil poses a far more critical challenge to our civilization than global warming. The modern industrial world cannot function in any recognizable form without cheap and plentiful oil. Stu Hart, a Cornell management professor, warned on public radio recently that "we're in the midst of the crash of the system" – meaning that absent breakthroughs in the way the world meets its energy needs, we are in for rough times.

What would life after peak oil mean for Dallas and its surrounding suburbs, a metropolis created by the availability of cheap energy?

Cars would be an unaffordable luxury for most, making life in suburbia difficult, perhaps impossible, to sustain. Likewise, air travel and shipping likely would be sharply curtailed as too costly, causing Dallas/Fort Worth International Airport, a major regional economic engine, to slow substantially.

Truck transport, too, would diminish, causing a sharp slowdown in the consumer economy and, crucially, making the kind of grocery-store bounty we now enjoy a thing of the past. And with a general rise in energy costs blasting electric bills into the stratosphere, we may all have to get used to – wait for it – life without air conditioning.

... Post-peak-oil conditions would reverse globalization, forcing a return to intensely local agriculture and local manufacturing. The stores and services that communities need in order to carry on everyday life would emerge in neighborhoods, as in the pre-automobile era. Cities would empty out, with rural areas and small towns in agriculturally rich areas reviving. Culturally, all Americans would have to undergo a Great Relearning of skills and social habits that our ancestors developed to survive in community.

... It is possible that we haven't reached peak oil yet – nobody can say for sure, because governments and oil companies keep much data confidential – but the signs of the times are not encouraging. Now is not the time for survivalist panic or denial-based paralysis.

It is time, however, for discerning people – not only decision-makers, but every one of us – to start talking about and urgently planning for a peak-oil future. It may come sooner, it may come later, but it's coming.

1d/ The needle and the damage done (The Toronto Star, Sun 25 Nov)

http://www.thestar.com/columnists/article/279635

Comment: David Olive, Business Columnist

> As demand threatens to outpace supply, our global addiction to oil is fast reaching the point of no return
>
> The hastening end of the Petroleum Age, a scenario that always has been confidently rejected by the global oil industry, is becoming harder to ignore.
>
> This has little if anything to do with a world crude oil price poised to cross the $100 (U.S.) per barrel threshold. Oil, which closed last week at $98.18, is still below its all-time inflation-adjusted high of $102 per barrel set in April 1980. Which means it has taken 27 years for oil to recover to its previous peak price – six years longer than it took for stock prices to regain their losses during the Great Depression.
>
> If anything, the sticker shock motorists have experienced at the pumps in recent years doesn't yet reflect the enormity of a crisis in oil that even industry and pro-industry government agencies are beginning, finally, to acknowledge.
>
> The world is not running out of oil. But, sooner than expected, it will run short of the kind that is easily and cheaply tapped, a day of reckoning some experts predict will be upon us early next decade – in the blink of an eye for a capital-intensive industry that thinks decades into the future.
>
> Long before that point, before pools of conventional oil already in decline are depleted altogether, consumers, governments and the industry will have to make some very tough decisions (see "What"). We are close to a tipping point.
>
> ... Yet five months later, global oil production peaked at close to 85.5 million barrels per day (bpd) and has since fallen. It wasn't the first time production has temporarily dropped, to be sure, but a rare occurrence during an oil-price boom.
>
> ... And now, for the first time, there are cracks in the long-standing consensus among oil-producing nations and the fraternity of Big Oil corporations that enough new reserves can be found and exploited to meet future demand projections.
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> ... Late last month, the head of French oil giant Total SA shocked a London conference by dismissing as fantasy predictions by the International Energy Agency, the club of world oil consumers, that supply will rise to between 102.3 million and 120 million bpd by 2030 – hardly reassuring.
>
> Christophe de Margerie, the Total CEO, said that ratcheting global production up to even 100 million barrels by 2030 will be "difficult." His view was seconded at that conference by the head of the Libya National Oil Corp. And a former head of production for Saudi state producer Saudi Aramco said the global industry lacks the skilled personnel to meet demand projections.
>
> At a Wall Street conference earlier this month, James Mulva, CEO of ConocoPhillips Co., the third-largest U.S. oil producer, acknowledged, "I don't think we are going to see the supply going over 100 million barrels a day ... Where is all that going to come from?" Mulva could have recast the question as: Where is all the money for expanded production going to come from?

... Without elaborating on the obvious, the NPC added, "A stable and attractive investment climate will be necessary" to secure that money. Which would require an end to several things: the kidnappings of foreign pipeline-construction workers in Ecuador; the murder of pipeline maintenance employees in war-torn Nigeria; the speed with which Iraqi insurgents blow up refineries and pipelines a second and third time after they've been repaired; and the expropriation of foreign-owned oilfields in Russia, Venezuela and Kazakhstan.

... Most Big Oil firms are investing in alternatives, even if the work is experimental and the payoff long in the future. At the London conference, Total's de Margerie knew he wasn't making any friends in dismissing optimistic outlooks about adequate supply far into the future. His bleak outlook, de Margerie said, is "the view of those who like to speak clearly, honestly, and [are] not just trying to please people."

2/ Legislators want state to plan for oil shortage (The Advocate [Connecticut, USA], Mon 26 Nov)

http://www.stamfordadvocate.com/news/local/scn-sa-peakoil3nov26,0,367476...

Comment: A piece of good news.

A coalition of state lawmakers has issued a report that concludes Connecticut is "completely unprepared" for what experts are forecasting as a sharply constrained supply of oil in the world.

"However, early intervention can and will mitigate the severity of impacts on the state and our people," says the report from the Peak Oil Caucus of the General Assembly.

The group, which includes state Rep. Carlo Leone, D-Stamford, and state Sen. Bob Duff, D-Norwalk, calls on colleagues and Gov. M. Jodi Rell to consider two dozen proposals to promote conservation and alternative energy.

Recommendations include creating a state Department of Energy, banning incandescent light bulbs, and forcing businesses to turn off illuminated signs when they are closed.

... The report specifies that not all of the ideas are endorsed by every caucus member.

For example, Rell unsuccessfully pitched the recommendation of creating an energy department to the legislature for two years.

"We haven't been sold on the idea of creating a new bureaucracy," Fontana said. "Other than that, I think the report is dead on."

The Peak Oil Caucus was established by Duff, a vice chairman of the energy committee, and state Rep. Terry Backer, D-Stratford, to raise the alarm about dwindling oil supplies.

... Earlier this month, the caucus organized a forum in Hartford at which energy experts testified that the world either reached maximum oil production in 2005 or will in 2012.

Some think the peak will hit from 2020 to 2030, according to the caucus report.

... Much of the caucus' report focuses on efforts to conserve energy by promoting hybrid vehicles and upgrading the state fleet to run on bio-fuels; forcing buyers of gas guzzlers to pay an additional fee to be used for mass transit; updating building codes to require

> more energy efficiencies; having more state employees telecommute; increasing state work days to shorten the work week and commuting time; banning sales of certain incandescent light bulbs; requiring that businesses turn off illuminated signs after hours; and revisiting the placement of street lights.
>
> "The government needs to be a leader in a lot of this," Duff said.
>
> In an energy bill passed this year, the state took steps to improve conservation, but they are mainly voluntary, Fontana said.
>
> "And the steps we took . . . I don't think adequately prepare us for where we need to be," he said.

3a/ Countdown to lift-off (The Economist, Thu 22 Nov)

http://www.economist.com/finance/displaystory.cfm?story_id=10191717

Comment: Presumably if the Middle East countries drop the pegging to the US dollar, the dollar will sink further.

> Gulf countries are rethinking their currency pact with the dollar
>
> HARDLY a week goes by without a new reason to be gloomy about the dollar. The latest scare is that members of the oil-rich Gulf Co-operation Council (GCC) might loosen their links to the greenback, depriving the foreign-exchange markets of a reliable buyer of the troubled currency.
>
> The United Arab Emirates (UAE), through its central bank governor, recently hinted that it would like to free itself from the dollar peg, but would prefer to do it in concert with the other GCC members—Saudi Arabia, Kuwait, Qatar, Oman and Bahrain. Last May Kuwait broke ranks and decided to track a basket of currencies. Since then, the Kuwaiti dinar has risen by nearly 5% against the dollar.
>
> ... A shift towards a looser peg in the GCC would undoubtedly hurt the greenback. At the very least, dollars would be purchased at a slower rate—leading to what Mr Lyons calls “passive diversification”. At worst, the policy might encourage others to follow, sparking panic sales of American assets. That is the main reason why Saudi Arabia is reluctant to move now, when dollar sentiment is so precarious. But given the inflation problem elsewhere in the GCC, the odds are that one or two more members will follow Kuwait.

3b/ Banks gone wild (International Herald Tribune [NY Times], Fri 23 Nov)

http://www.iht.com/articles/2007/11/23/opinion/edkrug.php?page=1

Comment: Paul Krugman

> 'What were they smoking?" asks the cover of the current issue of Fortune magazine. Underneath the headline are photos of recently deposed Wall Street titans, captioned with the staggering sums they managed to lose.
>
> The answer, of course, is that they were high on the usual drug - greed. And they were

encouraged to make socially destructive decisions by a system of executive compensation that should have been reformed after the Enron and WorldCom scandals, but wasn't.

In a direct sense, the carnage on Wall Street is all about the great housing slump.

This slump was both predictable and predicted. "These days," I wrote in August 2005, "Americans make a living selling each other houses, paid for with money borrowed from the Chinese. Somehow, that doesn't seem like a sustainable lifestyle." It wasn't.

But even as the danger signs multiplied, Wall Street piled into bonds backed by dubious home mortgages. Most of the bad investments now shaking the financial world seem to have been made in the final frenzy of the housing bubble, or even after the bubble began to deflate.

... The point is that the subprime crisis and the credit crunch are, in an important sense, the result of our failure to effectively reform corporate governance after the last set of scandals.

John Edwards recently came out with a corporate reform plan, but it didn't receive a lot of attention. Corporate governance still isn't regarded as a major political issue. But it should be.

3c/ Rising Rates to Worsen Subprime Mess (Wall Street Journal, Sat 24 Nov)

http://online.wsj.com/article/SB119586137992302497.html?mod=hps_us_whats...

Comment: Some WSJ articles are free to view. This looks like one of them.

The subprime mortgage crisis is poised to get much worse.

Next year, interest rates are set to rise -- or "reset" -- on $362 billion worth of adjustable-rate subprime mortgages, according to data calculated by Bank of America Corp.

While many accounts portray resetting rates as the big factor behind the surge in home-loan defaults and foreclosures this year, that isn't quite the case. Many of the subprime mortgages that have driven up the default rate went bad in their first year or so, well before their interest rate had a chance to go higher. Some of these mortgages went to speculators who planned to flip their houses, others to borrowers who had stretched too far to make their payments, and still others had some element of fraud.

Now the real crest of the reset wave is coming, and that promises more pain for borrowers, lenders and Wall Street. Already, many subprime lenders, who focused on people with poor credit, have gone bust. Big banks and investors who made subprime loans or bought securities backed by them are reporting billions of dollars in losses.

... Banc of America Securities, a unit of the big Charlotte, N.C., bank, estimates that $85 billion in subprime mortgages are resetting during the current quarter, and the same amount will reset in the first quarter of 2008. That will rise to a peak of $101 billion in the second quarter. The estimates include loans packaged into securities and held in bank portfolios.

Larry Litton Jr., chief executive of Litton Loan Servicing, says resetting of adjustable-

rate mortgages, or ARMs, has recently emerged as a bigger driver of defaults. "The initial wave was largely driven by a higher frequency of fraudulent loans...and loose underwriting," says Mr. Litton, whose company services 340,000 loans nationwide. "A much larger percentage of the defaults we're seeing right now are the result of ARM resets."

More than half of the subprime delinquencies and foreclosures this year involved loans that hadn't yet reset, and thus were due to factors such as weak underwriting and falling home prices, according to Rod Dubitsky, an analyst with Credit Suisse.

The majority of subprime ARMs due to reset next year are so-called 2-28 loans, which carry a fixed rate for two years, then adjust annually thereafter. In a speech earlier this month, Federal Reserve Governor Randall Kroszner explained how a typical 2-28 subprime loan issued in early 2007 might work. He said the interest rate on the loan would start at 7%, then jump to 9.5% after two years. For a typical borrower, that would add $350 to the monthly payment...

3d/ Bet your bottom dollar tensions will follow (The Telegraph, Sat 24 Nov)

http://www.telegraph.co.uk/money/main.jhtml;jsessionid=RQV5OTANXMHM1QFIQ...

Comment: Liam Halligan, Economics Editor, suggests that the US dollar probably has much further to fall and raises a very interesting question. How will Washington react to the end of the US hegemony?

The weak dollar used to be an economic issue. But the greenback has now dropped so far, and has so much further to fall, that its decline is of profound political importance. The dollar isn't any old currency. And it isn't just the currency of the biggest economy on earth. The dollar is the world's "reserve currency" - which means central banks everywhere use it to stockpile wealth. No less than two-thirds of all sovereign foreign exchange holdings are denominated in dollars.

... In recent months, though, the dollar has headed south with a vengeance - after Wall Street recklessly securitised $900bn of sub-prime loans. And, of course, as US property prices fall and default rates keep rising, this sub-prime crisis gets worse.

Last week, Federal Reserve Chairman Ben Bernanke said $150bn of loans will end up being written off. The Bank of England, in private, says $200bn. The reality, as this column has long maintained, will be at least $300bn.

... No wonder French President Nicolas Sarkozy describes America's drooping dollar as "a precursor to economic war".

... But America's currency-related tensions with Europe are as nothing compared to the brewing crisis with China, Russia and the oil-rich Gulf states. As is well known, these countries - and emerging markets in general - used to run big trade deficits. Strong exports and expensive oil means they now boast big surpluses. As a result, their foreign exchange reserves have ballooned, with China controlling $1,400bn, Russia $450bn and the Arab world much more than it admits - the vast majority in dollars.

The greenback's fall, of course, is costing these countries serious money. Until sub-prime, they didn't talk about quitting the dollar - the world's "reserve currency".

But the decline has now gone so far, and the US looks so wounded, that tomorrow's

> economic superpowers are now "dollar divesting" - despite the fact that doing so will further weaken the currency, undermining their reserve values even more...
>
> ... Reserve currency status brings America huge power. It puts the dollar constantly in demand, meaning the US can secure cheaper debts and run bigger deficits at everyone else's expense. It means weaker nations "peg" to the dollar, greatly extending America's sphere of influence.
>
> Incredibly, this long-standing system is now unravelling. Rather than keeping their reserves in falling dollars, the new economic titans are stuffing them into "sovereign wealth funds" - which they're using to buy-up debt-distressed Western firms, African oil fields and any other canny investment they can find.
>
> These upstart countries no longer want just stability and value preservation. They're looking for, and achieving, asset accumulation - and all the power that brings.
>
> The importance of "dollar divestment" cannot be overstated. At the very least it means the greenback has much further to fall - plunging the US into recession. But it begs a bigger, more alarming, question. How will Washington react to the end of the US hegemony?

4/ Peak Possibilities (Time, Wed 21 Nov)

http://www.time.com/time/magazine/article/0,9171,1686824,00.html

Comment: Interesting item in this week's Time magazine, following the trend amongst Peak Oil articles at the moment of not giving the so-called 'optimists' a say (last Monday's Wall Street Journal front page Peak Oil article was an exception, quoting arch-deacon of the Peak Oil deniers Michael Lynch, but he was not very convincing). The balance in the mainstream media, for the few that report on Peak Oil, seems to have moved away from emphasis on Peak decades away to about now, give or take a few years.

> In July 2006, the world's oil rigs pumped out crude at a rate of nearly 85.5 million bbl. a day. They haven't come close since, even as prices have risen from $75 to $98 per bbl. Which raises a question of potentially epochal significance: Is it all downhill from here?
>
> ... It's not as if nobody predicted this. The true believers in what's called peak oil--a motley crew of survivalists, despisers of capitalism, a few billionaire investors and a lot of perfectly respectable geologists--have long cited the middle to end of this decade as a likely turning point.
>
> ... In most official scenarios, production will soon begin rising again, peaking at more than 110 million bbl. a day around 2030. That's alarming enough in itself. Even the optimists think we have less than three decades to go? But at industry conferences this fall, the word from producers was far gloomier. The chief executives of ConocoPhillips and French oil giant Total both declared that they can't see oil production ever topping 100 million bbl. a day. The head of the oil importers' club that is the International Energy Agency warned that "new capacity additions will not keep up with declines at current fields and the projected increase in demand." This isn't quite the same as saying that oil production has peaked and is about to start declining sharply--the view of the true peakists.
>
> In "peak lite," as some call it, the big issues are not so much geological as political,

> technical, financial and even human-resource-related (the world apparently suffers from a dearth of qualified petroleum engineers). These factors all delay the arrival of oil on the market, meaning that production would not so much peak as plateau. But with demand rising sharply, especially from China and India, even a plateau could be precarious.
>
> .... Among the peakists, war and economic breakdown are favorite themes. They figure that cheap oil is the essential fuel of modern capitalism, which will founder without it. A more hopeful take is that innovation is the essential fuel of modern capitalism and that high oil prices will drive rapid advances in conservation and alternative energy. Either way, the beginning of the end of the oil era may be upon us, well ahead of schedule.

5/ Apocalyptic vision of a post-fossil fuel world (The Telegraph, Thu 22 Nov)

http://www.telegraph.co.uk/earth/main.jhtml?xml=/earth/2007/11/22/eaoil1...

Comment: Usually quiet on the subject of Peak oil, the Telegraph gives a positive review of Richard Heinberg's talk in London this evening (22nd Nov). The article was embedded in the 'Earth' section.

> An apocalyptic vision of how the world will look after the oil runs out has been given by a top scientist.
>
> Richard Heinberg, one of the world's leading experts on oil reserves, warned that the lives of billions of people were threatened by a food crisis caused by our dependence on dwindling supplies of fossil fuels.
>
> Higher oil prices, the loss of farmland to biofuel crops, climate change and the loss of natural resources would combine with population growth to create an unprecedented food shortage, he claimed.
>
> The only way to avoid a world food crisis was a planned and rapid reduction of fossil fuel use - oil, coal and gas - and a switch to more organic methods in the growing and delivery of food. It would mean a return to living off the land not seen for 150 years.
>
> The stark predictions were made by Heinberg in a lecture to the Soil Association in London.
>
> Heinberg, an author and former advisor to the National Petroleum Council, specialises in 'Peak Oil' - the point where oil production reaches its maximum and begins to decline - and the implications it has for climate change and food security.
>
> ... And with oil supplies rapidly running out the full resources of national governments would be needed to achieve it.
>
> The amount of food transportation would have to be reduced, food would need to be grown in and around cities, and producers and consumers would need to live closer together.
>
> The use of pesticides would have to be reduced in packaging and processing, draft animals would be reintroduced and governments would have to provide incentives for people to return to an agricultural life. Land reform would be needed to enable smallholders and farming co-ops to work their own plots and population growth would have to be curbed.

> "All of this constitutes a gargantuan task, but the alternatives - doing nothing or attempting to solve our food-production problems simply by applying mere techno-fixes - will almost certainly lead to dire consequences," he said.
>
> ... "A hundred years from now, everyone will be eating what we today would define as organic food, whether or not we act.
>
> "But what we do now will determine how many will be eating, what state of health will be enjoyed by those future generations, and whether they will live in a ruined cinder of a world, or one that is in the process of being renewed and replenished."

6a/ Debt crunch sparks bankruptcies (The Telegraph, Wed 21 Nov)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/11/20/cntrad...

> Companies are starting to go bankrupt at a disturbing rate in Britain, the United States and Europe as the debt crisis spreads to routine forms of trade credit, choking off the finance for suppliers at the end of the commercial chain.
>
> Atradius, the world's leading credit insurer, said there had been a sharp increase in the number of firms refusing to pay their suppliers for months, in many cases pushing terms from 60 days to 150 days. "It's hit hard. There's been a lag since the credit crunch in August but we're now abruptly seeing a number of medium-sized companies going under," said Mark Henstridge, senior risk underwriter.
>
> "This is a big warning sign for Britain, but we're seeing similar problems in the US and Germany. There's evidence that banks and private finance house are simply telling firms that there's no more money available," he said.
>
> ... Analysts say the copper market is starting to price in the risk the US housing bust will lead to economic contagion in Europe and Japan, with spill-over effects in Asia and Latin America.
>
> The metals sell-off comes amid signs of a slowdown in global freight demand, typically a leading indicator of broader troubles. FedEx, the giant air-cargo company, cut its profits forecast with a warning of weak freight levels. The US index of transport firms has dropped by 20pc since July. It is a Wall Street dictum the so-called "Trannies" pick up signs of wobbles a few months before the broader markets.

6b/ Markets poised for severe fall, says King (The Telegraph, Thu 15 Nov)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/11/15/cnking...

> The Bank of England Governor has issued an extremely unusual warning on world stock markets, indicating that shares may be heading for a major fall.
>
> Mervyn King said the full impact of the credit crunch had not yet been felt on equity markets in the West and in developing countries, saying that the possibility of share price falls were one of the biggest risks facing the world economy.
>
> His warning came as the Bank gave a firm indication that it plans to cut interest rates as

many as three times over the next two years to protect Britain's economy in the wake of the credit crunch. The signal caused the pound to drop to a four-year low against the euro, with the single currency now worth 71.13p.

"It is very striking that despite the developments we've seen in the last three months , despite the stresses and strains in the banking sector , equity prices are higher now than they were in August," he said, unveiling the Bank's Inflation Report, which said the strength of share prices had been "surprising".

He added: "This is true around the world, and in emerging markets they're 20pc higher. There must be some downside risks there.

"That's factored into our projections. That's the bigger risk to the global economy than the narrower one focused on the banking sector."

The Governor's warning echoes the Bank's recent Financial Stability Report, which said that the UK stock market is "particularly vulnerable" to a downturn...

6c/ Mortgage approvals dive to record low (Reuters UK, Fri 23 Nov)

http://uk.reuters.com/article/personalFinanceNews/idUKNOA33581520071123?...

Mortgage approvals fell to a record low in October and mortgage lending also softened, the British Bankers' Association says, in a further sign that the housing market is cooling.

The BBA said mortgage approvals for house purchase fell to 44,105 in October from 53,997 in September. The October outcome also represented a 37.4 percent fall on the year.

Seasonally adjusted net mortgage lending rose by 5.0 billion pounds last month, down from a 5.9 billion rise in September and below the previous six month average of 5.6 billion...

6d/ Turning the screw back to 1973 – or perhaps further (The Financial Times, Sun 25 Nov)

http://www.ft.com/cms/s/0/93d95d0e-9b7b-11dc-8aad-0000779fd2ac,s01=1,str...

Judging by the behaviour of world markets last week, investors are now convinced the credit squeeze is harming the real economy. In other words, in terms of a question I posed last week, they think this crisis is more like 1989 than the more benign one of 1998. So let us give the screw one more turn. What price 1973?

Anyone with memories of that time will shudder at the comparison. In the UK, the FTSE All-Share index plunged more than 70 per cent in the space of two years. By 1975 inflation rose to 27 per cent, at which time UK Libor stood at an astonishing minus 16.4 per cent in real terms.

... Of course, we are not there yet and may never be. All that is happening now is a worsening 1989 scenario, with Goldman Sachs – for instance – arguing last week that US house prices have 13 to 14 per cent more to fall, or 35 to 40 per cent in the case of

California.

I am not, after all, seeking to propound any vulgar fallacies about history repeating itself. The point of such exercises is rather to expand our conception of the possible.

In that spirit, a seasoned stockbroker of my acquaintance dismisses my 1973 comparison. The true parallel, he says, is 1929.

But that, surely, is going too far.

6e/ Fund managers raise exit penalties to prevent property collapse (The Independent, Mon 26 Nov)

http://news.independent.co.uk/business/news/article3196343.ece

Schroders, one of the UK's leading managers of commercial property investments, yesterday wiped 12.5 per cent off the value of units in its flagship £2bn fund, amid growing fears of a collapse in the sector.

The company also warned that investors in the fund might have to wait longer than usual to withdraw their money because of a serious downturn in the market. William Hill, Schroders' head of property, said: "The market has moved and there is nothing to be gained by us putting our heads in the sand and pretending otherwise."

... The Bank of England last month identified commercial property as particularly vulnerable to a credit crisis-inspired slowdown. The problems could spread to the retail side of the sector – commercial property funds have been hugely popular with private investors over the past three years, with managers including M&G, New Star, Norwich Union and Scottish Widows all running vehicles that are capitalised at in excess of £1bn.

... CB Richard Ellis, the consultant, now predicts annual returns for commercial property will be down to almost zero by the end of this year – compared with an 18 per cent gain in 2007 [2006?].

The worst-case scenario for investors in such funds is that a panic by unitholders withdrawing their money would force the managers to sell off assets at firesale prices in order to meet redemptions...

6f/ House prices drop again as slowdown deepens (The Telegraph, Mon 26 Nov)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/11/26/bcnhom...

Annual house price growth has dropped to its weakest since July 2006, after average prices fell for the second straight month, according to Hometrack.

In its latest monthly survey, the housing data group reported that average property prices slipped 0.2pc during November, adding to evidence that Britain's property market is cooling.

Prices dropped across 20pc of the country, with half of the falls concentrated in southern England.

> ... New buyer registrations have plummeted 26pc in the last five months.
>
> The survey shows that the largest falls in new buyer registrations were seen in the south - down by over a third in London alone.
>
> In the south east, registrations have fallen back by more than 40pc since July.
>
> ... The slowing property market has seen a rise in the average amount of time it takes to sell a property - up to 8 weeks in November from a recent low of less than 6 weeks back in the spring.
>
> Hometrack said that time on the market is expected to rise further in the months ahead and could well break through the 5 year high of 8.1 weeks recorded in January last year.
>
> The proportion of asking prices achieved has also slipped to 93.8pc, the lowest level for almost 2 years...

6g/ Average Briton is now £33,000 in debt (The Telegraph, Mon 26 Nov)

http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2007/11/26/ndebt126...

Comment: The Confederation of British Industry does not seem to understand the nature of our energy problems: “A report from the Confederation of British Industry warns today that every household will have to pay at least £100 a year more for energy within the next two decades to tackle climate change.”

> The average adult now owes £33,000 through mortgages, credit cards and personal loans compared with £17,000 in 2000, the international accountancy firm PricewaterhouseCoopers claims.
>
> ... Further pressure will be applied next year when more than a million people see their discounted fixed-rate mortgage deals end, the report predicts. They face an average rise of £140 on their monthly repayments.
>
> The report delivers a bleak warning about the level of consumer borrowing in Britain, which now stands at more than £1.3 trillion.
>
> It says many households have already stretched their borrowing capacity, and predicts a sharp rise in the number of people being declared insolvent.
>
> This will put even more pressure on credit card providers who are facing "lost profits" of around £4 billion from people defaulting on their loans.
>
> ... The report calculates the overall £33,000 debt figure by adding up the debt of every person - including their outstanding mortgage loans - and averaging it out across the entire adult population.
>
> Separate reports today predict that rising living costs will further squeeze families.
>
> ... A report from the Confederation of British Industry warns today that every household will have to pay at least £100 a year more for energy within the next two decades to tackle climate change.
>
> ... The Council of Mortgage Lenders also warned recently that the number of homes

> repossessed during 2008 looked likely to reach levels last seen during the 1990s house price crash...

7/ Turkmenistan calls for gas hike (Financial Times, Fri 23 Nov)

http://www.ft.com/cms/s/0/3a286f64-99de-11dc-ad70-0000779fd2ac,s01=1,str...

Turkmenistan is calling for a 30 percent hike in the price of natural gas it exports to Russia, Gazprom said on Friday, in a move that could imperil tricky talks with Ukraine over gas supplies as a New Year deadline looms.

Alexei Miller, the Russian gas giant's CEO, on Friday blamed European and US officials courting the Central Asian state for provoking the demand for the hike. He warned Ukraine, which has accepted two stiff price hikes in recent years, would again bare the brunt of any increase, as most of the gas Gazprom purchases from Turkmenistan is then resold to Ukraine.

... But contracts are being reviewed worldwide as energy prices soar. Mr Miller told reporters yesterday he expected Gazprom's export price to Europe to climb to $354 per thousand cubic metres next year.

Ukraine's newly elected parliament convened today, nearly two months after a snap parliamentary election, but it remained uncertain when a new governing coalition would be formed to tackle a growing array of challenges. Analysts warned that another stiff gas price hike and continued political paralysis would raise the risk of a potential Eurobond default by Ukraine's state oil and gas monopoly, Naftogaz Ukrainy.

8/ Troubled waters (The Economist, Thu 22 Nov)

http://www.economist.com/world/asia/displaystory.cfm?story_id=10184640

Comment: China seems to be having big problems with petrol / diesel supplies. The article says an option is to increase diesel imports. In a podcast released today and which will be in the next newsletter, Platts says there is a shortage of diesel in Europe, which should be sorted by higher imports.

> China's fuel-supply crisis: More oil needs pouring as tensions mount at petrol pumps
>
> EFFORTS to cushion China's citizens from rising oil prices are in disarray. Low government-controlled prices have led to a fuel-supply crisis in many parts of the country. Rationing, long queues, bad tempers and violence have become commonplace at filling stations. Fears of higher inflation are preventing a cure.
>
> Things were supposed to improve after November 1st, when, for the first time in 17 months, the government allowed an increase (of around 10%) in the retail prices of petrol, diesel and kerosene. This was aimed at encouraging state-owned oil firms, whose profits have been threatened by the gap between high crude prices and prices at the pump, to refine more oil and boost supply to consumers. But it has not been enough. This week widespread shortages, which plagued the country two years ago and again in October, have re-emerged (if they ever truly abated).
>
> The state-controlled press, which usually plays down crises, has hinted at the scale of the problem. On November 19th in Anhui province in central China, a lorry driver reportedly stabbed another driver to death in a fight to get to the head of a queue for diesel. Three days earlier, in neighbouring Hubei, a fuel shortage forced public buses to

halt, affecting 100,000 commuters. Also this month, rioting erupted at a petrol station in the coastal city of Ningbo. Many places have deployed the police to keep order at pumps.

The severity of shortages varies across the country. Urban Beijing appears unaffected, doubtless to the relief of officials who are acutely sensitive to instability in the capital.

... The two oil giants stress their eagerness to help. This week they unveiled measures to ease the supply crisis, such as increasing diesel imports and output at refineries. Sinopec said it would delay maintenance work at five refineries and halt exports of refined oil products ("at last", enthused the Procuratorial Daily, a Beijing newspaper, in a commentary accusing "certain people" of using fuel shortages to put pressure on the government)...

10/ Long-Term Trends in Global Natural Gas and Crude Oil Supply and Demand Point to Much Higher Prices (The Market Oracle, Sat 24 Nov)

http://www.marketoracle.co.uk/Article2874.html

Comment: Joseph Dancy, Adjunct Professor: Oil & Gas Law, SMU School of Law, reviews a couple of charts from a Groppe Long & Littell presentation given last month. If the second, showing USA natural gas production from 1945 and forecasting to 2015, is anywhere near correct, then the US will require huge amounts of imported natural gas (i.e. LNG), soon. Presumably that will be the same LNG that the UK will be equally desperate for. The second graph shows peak in global oil production no later than 2010.

The energy consulting firm of Groppe Long & Littell made a presentation to the Kansas Independent Oil & Gas Association last month on the outlook for the energy sector. Two charts prepared by that firm are worth reviewing:

Note the explosive growth in global production from 1945 to 1970. Much of the oil and gas regulatory and legal structure was established during this period of explosive growth.

In 1972 the largest swing oil producer at the time – the State of Texas – saw excess productive capacity shrink to zero. The Texas 'allowable' – how much an operator could produce – was raised to 100%, the maximum legal limit.

Note the steep growth in production from both OPEC and Other Non-OPEC countries from 1985 to 2005, and the projected plateau and decline of production in Non-OPEC countries starting in 2005

Liquids production from condensate and natural gas liquids increased substantially from 1985 to 2005. Without these incremental liquids the global supply situation would be much tighter.

While global production is expected to peak in the 2010 time frame according to the presentation, global demand has been increasing at roughly 1.5% per year. Global economic growth and crude oil use are strongly correlated.

Long term trends in global supply and demand point to higher prices – possibly much higher prices.

U.S. NATURAL GAS PRODUCTION

Note that conventional onshore natural gas production in the U.S. peaked in the early 1970's – about the same time U.S. crude oil production peaked.

Offshore natural gas production has declined the last few years, in part due to hurricane damage that permanently shut-in some of the offshore fields

Note the explosion of 'tight' and coalbed methane production since 1990 – these are sometimes referred to as 'unconventional' natural gas reserves.

Much of the decline in natural gas production from conventional reserves has been mitigated in the last decade by the boom in the unconventional production.

Many experts think the future U.S. natural gas production decline will be severe – which is why many planners expect imported liquefied natural gas (LNG) will play a major role in our energy future.

Long term trends in U.S. supply and demand point to higher prices for natural gas

11/ Ali Morteza Samsam Bakhtiari

Comment: Sadly, a message on Ali's website states that he died last month:

"Dear friends and associates,

Regrettably we inform you that Dr. Ali Morteza Samsam Bakhtiari passed away in October month 2007.

Dr. Samsam-Bakhtiari's funeral and burial ceremony took place in Tehran, Iran.

We thank you in advance for supporting our father's objectives during his career. All inquiries may be directed to amirbsamsamb@hotmail.com .

Sincerely,

Golbenaz & Amir Bahman Samsam Bakhtiari

Vancouver B.C. 2007"

Ali was well known throughout the Peak Oil community, but was of particular importance because he was one of the few members who came from an OPEC country, Iran. I never actually met Ali, but heard him speak at the ASPO annual conference in Berlin, May 2004 (Ali's speech, http://www.peakoil.net/iwood2004/pptBerlin/BakhtiariPDF.pdf). Several people who new him well have told me what a kind, helpful and decent man he was, and he was most helpful and courteous with any queries I sent him.

Ali was a semi-regular contributor to ODAC News from the beginning of last year at its inception, to June this year. Over May / June 2007, we were discussing Iranian and Iraqi oil reserves. Then on 22nd June, just two weeks later and out of the blue, Ali announced that he was quitting ODAC's 'International Advisory Board'. Roundabout the same time, Ali posted this message (his last) on his website, Personal Clarification, http://www.sfu.ca/~asamsamb/PERSONAL%20%20CLARIFICATION/Personal%20Clari..., at which point he more or less cut himself off from the Peak Oil community.

One of Ali's biggest worries was that Iran's oil production was about to fall precipitously. In May of this year, the Middle East Economic Survey ran an item entitled "Iranian Energy Sector In

Crisis, Says CGES”. It was Ali that alerted me to this article:

"I just wanted to call your attention to a piece in MEES (#21 - May 21, 2007) entitled :

'Iran Energy Sector in Crisis, says CGES'.

With the typical CGES bias for understatements, there must be lots of fires being this smoke. Things look really grim these days. Fortunately it is now 14 months I have retired from NIOC...[National Iranian Oil Company]"

There are several very interesting articles on Ali’s website,I recommend a visit: http://www.sfu.ca/~asamsamb/sb.htm

Matt Simmons sent out an e-mail re Ali’s passing away:

"Dear friends:

What a tragedy.

Ali was one of the greatest humanarist I have ever met and the friendship we made, primarily by email, was extraordinary.

For any of you who did not get the opportunity to read the great book he wrote "The Last of the Khans" about his grandfather have missed a great piece of literature written in the past several generations.

He was someone you rarely have the chance to meet, let alone become a great friend of.

I will cherish the time we spent together as one of the best spin-offs of the creation of the Association of the Study of Peak Oil (aka "ASPO")

Very sincerely

Matt Simmons"

In another e-mail, Matt Mushalik of ASPO Sydney, Australia, wrote:

"The last time Dr. Bakhtiari visited Australia was in July 2006 when he gave a 3 hr testimony to the Senate Inquiry on oil supplies, a transcript of which is available here http://www.aph.gov.au/hansard/senate/commttee/S9515.pdf (335 Kb):

You may want to save away this historic document as evidence of his untiring work to alert the world to the immanence of peak oil."

Some articles on or by Ali:

Peak Oil and Bakhtiari's 4 Phases of Transition
http://www.whiskeyandgunpowder.com/Archives/2006/20060825.html
Byron W. King, Whiskey and Gunpowder, 25 Aug 2006

Nothing Like Business as Usual
http://www.whiskeyandgunpowder.com/Archives/2006/20060811.html
Byron W. King, Whiskey and Gunpowder, 11 Aug 2006

Bakhtiari On Middle East Oil Reserves
http://www.evworld.com/view.cfm?section=article&storyid=980
Ali Morteza Samsam Bakhtiari, EV World, 20 February 2006

The man who foresaw skyrocketing oil prices
http://english.aljazeera.net/NR/exeres/351FD000-D263-46D8-BE9D-C17E9D5CE...
Adam Porter, Aljazeera, 1 October 2004

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