The Oil Drum: Europe
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

ODAC Newsletter, Thursday 29 November

Posted by Doug Low on November 30, 2007 - 9:19am in The Oil Drum: Europe
Topic: Miscellaneous

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1/ Oil price jumps $4 after pipeline blast (Financial Times, Thu 29 Nov)

http://www.ft.com/cms/s/0/2138e4be-9e68-11dc-b4e4-0000779fd2ac.html

Comment: Oil had slipped this week from just under $100.00/barrel, to just over $90.00/barrel as of last night. [30 Nov update - oil prices slipping further]

> Crude oil prices surged more than $4 a barrel on Thursday after an explosion killed two workers and halted the flow at the main pipeline linking Canada to the US.
>
> The pipeline provides about 1.8m barrels a day of crude oil, almost one-fifth of US imports, according to the US Department of Energy.
>
> Nymex January West Texas Intermediate jumped to an intraday high of $95.17 a barrel and in morning trade in London was $3.78 higher at $94.39l. ICE January Brent jumped $2.32 to $91.22 a barrel.
>
> Traders said that about 600,000m b/d may return in the next three days, but warned that a further 1.2m b/d would be out of commission for the time being.
>
> The International Energy Agency, the western world's energy watchdog in charge of strategic reserves, said on Thursday it was monitoring the situation.
>
> Traders said the massive disruption – larger than the outages caused by Hurricanes Katrina and Rita in 2005 – could force the White House to tap the Strategic Petroleum Reserve, the US emergency crude oil stockpile.
>
> The pipeline explosion may also force Opec to increase production by more than initially expected at its next Wednesday meeting in Abu Dhabi.

2/ Questioning Peak Oil Economic Assumptions (ASPO-USA [Dave Cohen], Wed 28 Nov)

http://www.aspo-usa.com/index.php?option=com_content&task=view&id=261&It...

Comment: Interesting review of the economics of Peak Oil.

> There is a large and expanding economic literature that seeks to explain why the steep oil price rise since 2003 has not led to a recession. The common conclusion, arrived at by different models and analysis methods, is that the U.S. economy is now mostly immune to oil prices hikes and has been so since the mid-80's. Many peak oil proponents assume a simple model of the relation between oil supply or price shocks and economic performance. Economists have called into question some aspects of that model. Those studying peak oil need to make cogent responses to ensure that their view is taken seriously. It is beyond the scope of this column to do a detailed analysis, but it is possible to lay out some of the current debate and the issues that need to be addressed.
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> [Main Section Titles]
>
> Peak Oil Economics
> Current Economic Conditions

Views of the Economists
Discussion from a Peak Oil Perspective

3a/ Bank of England warns credit crisis to worsen (The Telegraph, Mon 26 Nov)

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

The Bank of England's chief economist has warned that the impact of the credit crunch on the banks may only be the tip of the iceberg.

Charles Bean said that the banks have so far reported "only a relatively small fraction of the likely losses associated with the US sub-prime market."

"It is quite likely that, over the coming months, there will be more revelations to come out, not necessarily just in this country," he added.

The message from Mr Bean comes after Goldman Sachs warned earlier this month that sub-prime mortgage losses could force banks to slash lending by $2,000bn (£980bn) and push the United States into a deep recession.

Mr Bean said that the immediate future would be characterised by "lots of volatility" and said that it would be "quite a long time before things come back to a full state of normality."...

3b/ Trouble looms for a third of mortgages (Reuters, Wed 28 Nov)

http://uk.reuters.com/article/businessNews/idUKL2741740620071128?feedTyp...

Up to one in three or 5.5 million mortgage holders in Britain could face serious financial difficulties as a result of the U.S. subprime crisis and the tougher lending climate it has created, a study showed.

According to a report published by consumer research group Mintel on Wednesday, people with poor credit records were not the only ones at risk. Those who are self-employed or had moved house frequently were also in the firing line.

"The focus over the last few months has very much been on subprime borrowers, but they are only the tip of the iceberg," Toby Clark, a senior finance analyst at Mintel, said in a statement.

Mintel said 9 percent of British mortgage holders were classed as sub-prime, while a further 24 percent were "non-standard" and relatively high risk because they had irregular incomes.

... The Council of Mortgage Lenders (CML), whose members accounted for 98 percent of all UK residential mortgage lending, said Mintel's figures were too high.

... Based on a survey of almost 2,000 adults, Mintel said one in five who were interested in getting a mortgage in future already foresaw some problems with their applications because of their income, working status or personal circumstances.

That figure could grow in the years ahead if banks become more cautious in their lending.

3c/ House prices see biggest fall in years (Reuters, Thu 29 Nov)

http://uk.reuters.com/article/topNews/idUKL263503920071129?feedType=nl&f...

> House prices fell at their sharpest rate in more than twelve years in November, the Nationwide building society said on Thursday, in another sign the property market is cooling fast.
>
> Some economists said the growing signs of a housing market slowdown had strengthened the case for a cut in interest rates. Sterling fell against the dollar after the report was released.
>
> The mortgage lender said the cost of an average home fell 0.8 percent this month -- the first decline since February 2006 and the biggest drop since June 1995 -- after a 1.1 percent rise in the previous month...

3d/ Mortgage approval at '3-year low' (BBC News, Thu 29 Nov)

http://news.bbc.co.uk/1/hi/business/7118561.stm

> The number of mortgage approvals has fallen to its lowest level for nearly three years, says the Bank of England.
>
> In October there were 88,000 new mortgage approvals, down from 100,000 in September and 128,000 a year ago, the Bank said in a report.
>
> The figures suggest that the property market is slowing down quickly, under the impact of higher interest rates.
>
> Earlier, lender the Nationwide said house prices saw their biggest monthly fall for 12 years last month.
>
> Mortgage approvals have been falling steadily since the start of the year.
>
> But October's number was the lowest since February 2005 and represents a slump of 31% from the same month last year.

3e/ The big freeze (BBC News [Robert Preston], Thu 29 Nov)

http://www.bbc.co.uk/blogs/thereporters/robertpeston/

> ... So it’s all reason enough to fear that we may be about to experience the most prolonged downturn in the housing market for 15 years or so.
>
> ... The Governor’s statement to the Treasury Select Committee this morning is almost enough to make grown men weep. It says that the Monetary Policy Committee is expecting an unspecified period of rising inflation and slowing growth ["stagflation"] and

> that the outlook is “high uncertain”. Yuk.
>
> Mervyn King also fears a further deterioration in money-market conditions as we approach the year end. He is particularly concerned about the possibility that short-term interest rates will spike relative to the policy rate.
>
> So he has announced a new five-week liquidity facility to assure the big banks there will be enough cash in the banking system over the Christmas holiday period.

3f/ UK Daily View: UK housing slowdown [video] (Financial Times, Thu 29 Nov)

http://www.ft.com/cms/84d2eba2-2a26-11dc-9208-000b5df10621.html?_i_refer... (video)

Comment: Video summarising today’s mostly bad news on the UK housing market. “Chris Giles analyses a wealth of negative data”. Chris says that the big fall in mortgages lent / houses sold is not because people are not buying, but because the banks are not lending.

4a/ US house prices fall at fastest rate in decades (Financial Times, Wed 28 Nov)

http://www.ft.com/cms/s/0/2de099a6-9d54-11dc-af03-0000779fd2ac.html

> US house prices fell at their fastest rate in more than two decades during the third quarter, according to a measure of house prices released yesterday and widely followed by investors.
>
> The S&P/Case-Shiller index suggests that house prices nationwide fell 1.7 per cent in the three months to October from the second quarter and were down 4.5 per cent year on year. Prices in 20 big cities were down on average by 4.9 per cent year on year.
>
> Meanwhile, two new reports painted a gloomy -picture of continuing falls in house prices next year.
>
> The US Conference of Mayors released a report by consulting firm Global Insight that forecast US house prices declining by 7 per cent nationwide next year with a 15 per cent decline in California, the nation's biggest housing market.
>
> The report warned that US cities, particularly in California and Florida, would suffer sharp falls in revenues from property taxes.
>
> Goldman Sachs, meanwhile, released a report arguing that even if the US economy stayed out of recession, house prices would fall by 7 per cent in both 2008 and 2009, for a total decline from peak to trough of 15 per cent.
>
> It warned that "if nominal house prices fall 15 per cent at the national level, parts of California, Florida, Arizona and Nevada are likely to see price declines of around 30 per cent".
>
> The investment bank said that if the economy succumbed to recession, "the decline in house prices could be as large as 30 per cent".
>
> ... The official data suggest a slower rate of house price declines.
>
> However, even less bearish analysts say it is very difficult to tell at what level house prices will bottom out.

Home builders have sharply reduced construction of new homes but new home sales volumes have also fallen sharply, leaving still large levels of unsold inventory.

4b/ Wake up to the dangers of a deepening crisis (Financial Times, Sun 25 Nov)

http://www.ft.com/cms/s/0/b56079a8-9b71-11dc-8aad-0000779fd2ac.html

Three months ago it was reasonable to expect that the subprime credit crisis would be a financially significant event but not one that would threaten the overall pattern of economic growth. This is still a possible outcome but no longer the preponderant probability.

Even if necessary changes in policy are implemented, the odds now favour a US recession that slows growth significantly on a global basis. Without stronger policy responses than have been observed to date, moreover, there is the risk that the adverse impacts will be felt for the rest of this decade and beyond.

Several streams of data indicate how much more serious the situation is than was clear a few months ago. First, forward-looking indicators suggest that the housing sector may be in free-fall from what felt like the basement levels of a few months ago. Single family home construction may be down over the next year by as much as half from previous peak levels. There are forecasts implied by at least one property derivatives market indicating that nationwide house prices could fall from their previous peaks by as much as 25 per cent over the next several years.

We do not have comparable experiences on which to base predictions about what this will mean for the overall economy, but it is hard to believe declines of anything like this magnitude will not lead to a dramatic slowing in the consumer spending that has driven the economy in recent years.

Second, it is now clear that only a small part of the financial distress that must be worked through has yet been faced.

... Third, the capacity of the financial system to provide credit in support of new investment on the scale necessary to maintain economic expansion is in increasing doubt.

... Then there are the potentially adverse effects on confidence of a sharply falling dollar, rising energy costs, geopolitical uncertainties especially in the Middle East, or lower global growth as economic slowdown and a falling dollar cause the US no longer to fulfil its traditional role of importer of last resort...

5a/ £1bn pipeline gives boost to gas supply (Financial Times, Wed 28 Nov)

http://www.ft.com/cms/s/0/5184acbe-9d3e-11dc-af03-0000779fd2ac.html

Comment: It is disappointing that this article focuses on capacity. The UK has excellent capacity, i.e. will shortly have enough pipelines / LNG terminals to import all of it gas needs. What it does not have is long-term contracts to supply the gas. Plenty of gas capacity – good, lack of gas – bad. It might take a few years, but we are headed for a shortage of gas. Industry will be the first to have their supplies cut.

A £1bn pipeline connecting new gas import terminals at Milford Haven in Wales to the national transmission network opened on Tuesday.

The completion marks an important step in the construction of new facilities that analysts say may create a gas glut in Britain.

However, the price of gas has been increasing since September, and could go up further, as oil has risen to almost $100 a barrel.

The new pipeline is not yet being used. Nick Winser, the transmission director of National Grid, hailed the “fantastic job” done by the company and its contractors to complete the link on time.

But the companies building the two liquefied natural gas terminals that will feed it have been less successful. South Hook, operated by ExxonMobil, is expected to begin operating next summer. BG Group, the biggest shareholder in Dragon LNG, says it expects its terminal to open in the first half of next year. Even without these two new sources of LNG, however, gas supply capacity looks good.

The expansion of the gas interconnector with Belgium, the new BBL pipeline from the Netherlands, which had its capacity increased in March, and the opening of the Ormen Lange field in Norway, which can send gas through the Langeled pipeline, mean the balance of demand and potential supply looks better than it did last year. This is despite the continuing decline of Britain’s North Sea gas production.

With the LNG terminals becoming available next year, Britain is entering a period of “capacity excess”, according to Poyry, an Oxford-based energy consultancy.

However, Britain’s increased physical connection with continental Europe has also brought closer links between the two gas markets. The result is that gas prices in Britain are more dependent on the price on the continent.

“You would not expect to see UK prices fall below that [continental price],” said David Cox of Poyry. “UK gas landing, be it LNG or Langeled gas, could just land in the UK and then export to the continent to pick up the price. So that tends to set the floor.”

Continental European gas prices are generally set on a formula linked to the oil price. So as the price of oil rises, the price of gas rises, too, typically with a three to six-month lag.

European gas executives have warned that the surge in oil prices will mean that gas is more expensive next year – and that will affect the UK.

The gas market is typically volatile over the winter, however, because of the unpredictability of the weather. A warmer-than-expected winter could still drive British prices down.

5b/ Gazprom warns of record gas prices ahead (Financial Times, Wed 28 Nov)

http://www.ft.com/cms/s/0/5ccbbe3e-9d55-11dc-af03-0000779fd2ac.html

European consumers should be prepared for the price of gas to rise by up to 17 per cent, reaching new highs next year because of the rise in the price of oil, the deputy chief executive of Gazprom has warned.

> Alexander Medvedev, who is the deputy chairman of Gazprom's management committee, said he expected gas prices in western Europe to rise to $300-$350 per thousand cubic metres because the price is linked by supply contracts to the cost of oil products such as heating oil.
>
> He also said Gazprom would fully pass on to Ukrainian consumers any increase in the price charged by Turkmenistan for its gas.
>
> Gazprom announced yesterday evening that it had agreed steep price rises with Turkmenistan. The state-controlled Russian company will pay $130 per thousand cubic metres in the first half of next year and $150 in the second half, up from $100 this year, and move to a price formula "based on market principles" from January 2009.
>
> ... "We are not a non-commercial, not-for-profit organisation. We are ac-countable to our shareholders."
>
> He was also critical of attempts to block the construction of the Nord Stream pipeline from Russia to Germany under the Baltic Sea.
>
> "If somebody for some political reason assumes the responsibility of blocking the throughput of 55bn cubic metres to Europe, then I think that that person should accept the responsibility for creating a shortage in the region," he said.

5c/ Russia Agrees To Pay More For Turkmenistan Natural Gas (RTT News, Wed 28 Nov)

http://www.rttnews.com/FOREX/gblnews.asp?date=11/28/2007&item=6

> Russia's state-run gas monopoly, Gazprom has agreed to pay 30%-50% more for natural gas imports from Turkmenistan from 2008 onwards.
>
> The statement came after Gazprom chief Alexei Miller met with Turkmen President Gurbanguly Berdymukhamedov. Rise in gas prices will help Turkmenistan to speed up construction of Caspian shoreline pipeline through Kazakhstan to Russia.
>
> Under the deal, Russia will pay $130 per 1,000 cubic meters of natural gas starting from the first half of 2008 and in the second half it will be increased to $150. Currently Russia pays $100 per 1,000 cubic meters.
>
> In addition, Gazprom noted that Russia would buy gas from Turkmenistan at a rate determined by "market principles" from 2009.
>
> Turkmenistan's gas reserves are second in the former Soviet Union. Gazprom buys major portion of gas exported by Turkmenistan and sells it to other countries.

5d/ Algeria Faces End To Era Of Easy Gas, Supply Gap Looms (Energy Intelligence [World Gas Intelligence], Wed 28 Nov)

No link. Newsletter.

> Delays in Algerian natural gas export projects -- both pipeline and LNG -- have been well documented, and most observers are aware that Algeria's target of boosting

exports to 85 Bcm/yr (8.2 Bcf/d) by 2010, from 62 Bcm in 2006, will not likely be hit until sometime in 2012. More troubling could be question marks over Algeria's long-term ability to feed its growing array of export pipes and LNG trains, as the country moves into tight and deep gas development, and scattered gas pockets.

5e/ Country-level imports of liquefied natural gas (LNG) by country of origin for the year 2006 (EIA, Tue 20 Nov)

The table is available at:

http://www.eia.doe.gov/emeu/international/LNGimp2006.html or http://www.eia.doe.gov/emeu/international/LNGimp2006.xls

Tables for 1993-2006 (data in the 2004 and 2005 tables have just been revised and updated) are all available at:

http://www.eia.doe.gov/emeu/international/gastrade.html

Comment: Imports / exports of LNG for 2006, and 1993-2006. The list of importers is set to grow over the next year or two.

6/ North Sea oil operators warned on safety (Financial Times, Thu 22 Nov)

http://www.ft.com/cms/s/0/cd5ab702-9884-11dc-8ca7-0000779fd2ac.html

Comment: While old UK North Sea oil fields might be bringing in tidy profits at current high oil prices, even when production has in most cases fallen substantially from field peak (UK oil production profiles, http://www.og.dti.gov.uk/pprs/full_production.htm), oil companies are going to be loathe to spend what will in some cases amount to a small fortune to upgrade the platforms. The oldest platforms will be about 50 years old by 2020.

> Oil companies operating in the North Sea could have their facilities closed down or face prosecution unless they improve safety standards.
>
> In a report published on Wednesday, the government's Health and Safety Executive said about 50 per cent of the 100 oil facilities it surveyed over the past three years were in a poor state. It said that in many cases companies were not doing enough to maintain adequate safety standards.
>
> Judith Hackitt, who chairs the Health and Safety commission, told the Financial Times that companies could "ultimately face prosecution but in the interim might have operations stopped until things are fixed".
>
> The report will come as a blow to the UK oil industry, which is struggling to remain profitable in the North Sea, while expecting to take on up to £20bn ($41bn) in costs to decommission facilities in fields that are no longer commercial.
>
> ... The report said low oil prices in the 1990s had encouraged companies to neglect investment and the prioritisation of health and safety issues over the years.
>
> The HSE said during the past three years it had insisted on 10 per cent of the facilities it surveyed taking immediate remedial action to improve safety.

7/ Diesel price up 80% since January 2007 [podcast] (Platts, Fri 23 Nov)

http://www.platts.com/Oil/Resources/Podcasts/europe/index.xml

Comment: Podcast, 9 mins long.

> In this podcast, editors for Platts European oil desk Jonathan Davies and Andrew Bonnington analyze why diesel has become one of the most expensive refined products in Europe, as the price hit the extraordinary level of $942/mt on November 21; whether the high prices will last; and the potential affect of the upcoming change to 10ppm diesel on UK diesel retail prices.

8/ Mr. Harper's Cold Comfort for Canadians (Embassy [Canada], Wed 28 Nov)

http://www.embassymag.ca/html/index.php?display=story&full_path=/2007/no...

Comment: Embassy = “Canada’s Foreign Policy Newsweekly”. This editorial suggests that the current Canadian administration’s ignoring of climate change issues has a silver lining. It is forcing climate change and peak oil into the public conscious.

> Having Stephen Harper as prime minister of Canada–an environmental and climate change saboteur, and international pariah in the words of opposition and environmentalists–may actually have a bright side.
>
> The silver lining is that Mr. Harper's actions with respect to Kyoto, and environmental and energy issues in general, are awakening public opinion to a host of other environmental issues that might have been swept under the rug during previous Liberal regimes.
>
> ... But under Mr. Harper, there is no comfort for Canadians and a world community that wanted to believe that Canada at least had some good intentions. Canada's intentions on climate change today have moved from grey area to no area.
>
> ... Is Canada readying itself for climate change and the equally pressing and closely related energy problem of peak oil?
>
> The very words "peak oil" and "climate change" have had such an unemotional–even benign-sounding–scientific calmness about them that the public has been slow to catch on.
>
> But slowly or not, Canadians are starting to learn that peak oil and gas mean that we have used up the first half of our supplies, the part that was the easiest and cheapest to extract, and we must now attempt to wring the last few drops out of the earth. But, inexplicably, we are at the same time continuing to develop economic and trade systems that use more gas and oil today than we did yesterday. Something's gotta give.
>
> The United Sates reached peak oil between 1970 and 1971. That event alone should have told us that the wolf was at the door.
>
> Canadian natural gas is rapidly declining and the Alberta tar sands, the largest source of Canadian oil, is found in deposits that require increasing amounts of energy to extract it. The Energy Bulletin's "Peak Oil Primer" points out that once it takes the energy of a barrel of oil to extract a barrel of tar sands oil, "then further extraction is pointless, no

> matter what the price of oil."
>
> This is a looming, serious problem that will have a major impact on food supplies, transportation, heating and virtually every economic activity.
>
> It is so radically important that it calls into question every part of the energy status quo: Canada's privatized energy industry, NAFTA's requirements that Canada must ship much of its output to the U.S., and the very nature of globalism itself.
>
> These are radical problems that will require radical solutions. Mr. Harper's hard-line climate change stance may be cold comfort to environmentalists–but it is stirring up the kind of public opinion that could unwittingly convince Canadians to accept the kind of solutions an uninformed electorate would never stomach.

9/ Oil Supply Security - Emergency Response of IEA Countries 2007 (IEA, Thu 29 Nov)

Main page http://www.iea.org/w/bookshop/add.aspx?id=322

Press Release http://www.iea.org/Textbase/press/pressdetail.asp?PRESS_REL_ID=242

Table of Contents http://www.iea.org/Textbase/nptoc/OilSecurity2007TOC.pdf

Summary http://www.iea.org/Textbase/npsum/OilSecurity2007SUM.pdf (262 Kb)

Illustrations (PDFs):

Major Oil Supply Disruptions
http://www.iea.org/Textbase/nptable/2007/oilsecurity_f1_2.pdf

IEA Emergency Response System
http://www.iea.org/Textbase/nptable/2007/oilsecurity_f1_5.pdf

Total Oil Stocks in IEA Regions
http://www.iea.org/Textbase/nptable/2007/oilsecurity_f1_6.pdf

Total IEA Oil Stocks at End Year, 1984-2006
http://www.iea.org/Textbase/nptable/2007/oilsecurity_f1_7.pdf

How Does the IEA System Work in Practice?
http://www.iea.org/Textbase/nptable/2007/oilsecurity_b1_2.pdf

Hurricane Katrina - Summary of the IEA Response
http://www.iea.org/Textbase/nptable/2007/oilsecurity_b1_3.pdf

Comment: The latest publication from the IEA, published today (29 Nov). Oil Supply Security -- Emergency Response of IEA Countries 2007, 384 pages, ISBN 978-92-64-04003-8, paper €100, PDF €80 (2007).

> When Hurricane Katrina hit the Gulf of Mexico in 2005, the region’s oil production and refining infrastructure was devastated and world energy markets were disrupted. The International Energy Agency decided in a matter of days to bring 60 million barrels of additional oil to the market. The emergency response system worked – the collective action helped to stabilise global markets.
>
> Since its founding in 1974, oil supply security has been a core mission of the IEA and the

Agency has improved its mechanisms to respond to short-term oil supply disruptions. Nevertheless, numerous factors will continue to test the delicate balance of supply and demand. Oil demand growth will continue to accelerate in Asia; oil will be increasingly produced by a shrinking number of countries; and capacities in the supply chain will need to expand. These are just a few of the challenges facing an already tight market. What are the emergency response systems of IEA countries? How are their emergency structures organised? How prepared is the IEA to deal with an oil supply disruption?

Oil Supply Security: Emergency Response of IEA Countries addresses these questions. It presents another cycle of rigorous reviews of the emergency response mechanisms of IEA member countries. The goal of these reviews is to ensure that the IEA stays ready to respond effectively to oil supply disruptions. This publication also includes overviews of how China, India and countries of Southeast Asia are progressing with domestic policies to improve oil supply security, based on emergency stocks.