# ODAC Newsletter, Sunday 17 December

Posted by Doug Low on December 18, 2007 - 9:15am in The Oil Drum: Europe
Topic: Miscellaneous

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1/ The Myth Of Biofuels (ODAC, Mon 17 Dec)

http://www.odac-info.org/

The Myth of Biofuels is an excellent, relatively new DVD discussing the pros (none) and cons (many) of biofuels. The myths include:

Large-scale biofuel production is sustainable
Biofuels are environmentally friendly and reduce CO2 emissions
Biofuels will help us (the USA) achieve "energy independence"
Biofuels will help the farmers
"Second-generation biofuels will save us"
Biofuels will let us continue our current way of life

The format of the DVD is a presentation given by David Fridley of the Lawrence Berkeley Labs in California and the Peak Oil educational group San Francisco Oil Awareness, which he gave to a small group of academics in June 2007. The talk does contain quite a few data-heavy slides, but they are all of excellent quality, they are explained in detail during the talk, and are available as separate slides on the DVD. The talk is one hour long, followed by a question and answer session. Fridley makes it clear from the outset that suggesting alternatives to biofuels is not one of his aims and he does not discuss other alternatives, but focuses on biofuel myths as listed above. Here is a list of the main themes:

- Explains what biofuels are, solids, liquids and gases.
- Why the boom in biofuels - we are heading for a liquid fuels crisis which some say is already here.
- How are biofuels different from oil? Biofuels do not have the energy density of oil, includes good figure with detailed explanation.
- Introduces bioethanol, and compares the two main types, starch- and sugar-derived, and cellulosic.
- The corn-to-liquid process is looked at in detail. Lengthy process. Again, good graphic discussed in detail.
- In 2007, in the USA, corn for ethanol will exceed corn for export. The USA exports 60% world market for corn.
- As demand for corn goes up, production of other crops will decline, for years, including wheat, rice and cotton.
- What is cellulosic ethanol? Discussed in some detail. Cold water put on cellulosic ethanol. Many technological obstacles to overcome.
- 25 million acres of USA rural land was lost between 1982 and 1997 to development; half from population growth, half from per-capita consumption growth.
- Explains "sustainable" from an ecological perspective, and concludes there is nothing sustainable about USA biofuels.
- Biodiesel. The four best (kg/hectare) biodiesel crops only grow in the tropics. If all the world's vegetable oil were converted to biodiesel, it would provide about 8% of world consumption of diesel. Some countries have targets of 10% biodiesel, thus the reason why some groups are convinced these targets will lead to starvation.
- Covers the EROI (Energy Returned On Energy Invested) of bioethanol. To lighten up the talk, there is a parable explaining EROI, a cartoon with 'alternative' electronic music, which has potato-eating bugs suffering a die-off. The bottom line - the EROI ratio of 30:1 that we currently benefit from, from Middle East crude oil, gives us a different society that one based on bio-ethanol with an EROI of about 2:1 will. A lot more people will be growing food themselves.

Apart from the cartoon, the only other bit about the presentation I was not keen on was that the camera occasionally focused on people staring at the camera. But otherwise, this is an excellent resource that is highly recommended.

Dennis Drumm of San Francisco Oil Awareness says: "The film was made to be in the

> public domain and folks are ENCOURAGED to copy it and share with their friends. I don't think we'll make another run after the 60 or so left are gone (it is the third printing) - but I will put the whole thing in a decent (1 gig) size up on the Internet Archive at that point."
>
> The DVD can be purchased, and much more information available, from the San Francisco Oil Awareness website, The Myths of Biofuels, http://www.sfbayoil.org/sfoa/myths/index.html.

2/ Turkish gas use up 20% on 2006 to 27.72 Bcm (Platts, Thu 13 Dec)

http://www.platts.com/Natural%20Gas/News/8419223.xml?p=Natural%20Gas/New...

Comment: 20% in one year is a phenomenal rate of growth, but it can’t last.

> Turkey's consumption of natural gas over the first ten months of the year reached 27.72 billion cubic meters, up 20% on the same period in 2006 according to figures published Wednesday by Turkey's gas importation and transmission company Botas.
>
> The figures published by Botas indicate the volume of gas used to generate electricity in Turkey over the first ten months of the year reaching 16.18 Bcm, only marginally below the 16.64 Bcm recorded over the full twelve months of 2006.
>
> Gas consumption by industrial consumers reached 6.16 Bcm over the first ten months of year compared with 7.26 Bcm over the whole of 2006 while consumption by domestic consumers reaching 5.38 Bcm over the first ten months compared with 7.26 Bcm over the whole of 2006.
>
> According to a recent statement by Yusuf Gunay the outgoing head of Turkey's Energy Market Regulatory Authority, the Enerji Piyasasi Duzenleme Kurulu (EPDK), electricity consumption in Turkey is set to rise by 10% over the whole of 2007, 2% higher than the 8% previous high case estimates had predicted, with Turkey expected to suffer a shortfall in generating capacity beginning in 2008 or 2009.
>
> Turkey's increased appetite for gas and power comes as the country is also emerging as an important transit route for gas from the Middle East and Caspian regions to markets in western Europe. On November 18 a new pipeline linking Turkey and Greece opened and there are advanced plans to extend it to Italy, so that it could carry gas from Azerbaijan to Italian consumers. Turkey is also the likely route for the planned Nabucco pipeline, which would take gas from Iran as far west as Austria.

3a/ House price confidence at lowest since 1998 (The Telegraph, Thu 13 Dec)

http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/12/13/bcnric...

> House sales across the UK have tumbled at the fastest pace ever recorded by the Royal Institution of Chartered Surveyors, as price expectations plummet and buyer demand dries up.
>
> In its latest monthly survey, Rics said newly agreed sales are down for the fifth consecutive month, with heavy declines recorded across all regions in England and

> Wales.
>
> Price expectations have now reached the lowest level since Rics introduced the question to its monthly survey in 1998.
>
> For the three months to November, more than 40pc of Britain's surveyors reported price falls in the homes they surveyed.
>
> In the previous month, 23.4pc of surveyors reported a decline in property prices.
>
> Rics said the number of properties lingering on estate agents books shot up by 8.7pc during November, following a 9.7pc rise in October...

3b/ House prices pumped by interest rate cuts (The Telegraph, Wed 12 Dec)

[http://www.telegraph.co.uk/money/main.jhtml?view=DETAILS&grid=A1YourView...](http://www.telegraph.co.uk/money/main.jhtml?view=DETAILS&grid=A1YourView...)

Comment: Liam Halligan is one of the more sensible columnists on the economy. Here he discusses why at the beginning of last week almost everyone was saying the Bank of England's Monetary Policy Committee would not lower interest rates, then 3 days later they had all changed their tune. Liam thinks that the MPC lowering interest rates was a mistake, for the simple reason that it will help prime inflation.

> A week ago I wrote that the Bank of England shouldn't cut rates on Thursday, but would anyway - which is, of course, what happened.
>
> By rights, I should be gloating. Economists like nothing more than public forecasts coming true. And as a punter, with a mortgage, I'll now have a few extra quid each month.
>
> But when I heard the news - base rates were down to 5.5 per cent - my smugness was clouded by a nagging sense that the Bank had made a wrong move. And, try as I might, I can't shake off the feeling that looser monetary policy now, rather than solving our problems, will make this financial crisis much worse.
>
> Last weekend few economists thought the Monetary Policy Committee (MPC) was about to cut. But then, between Monday and Wednesday, the committee faced a last-minute media barrage - with industry and retail bosses piling in, predicting Armageddon unless borrowing costs were slashed.
>
> By Thursday, it's fair to say that almost every prominent economist had come on side, arguing that it would be "irresponsible" for the Bank not to act.
>
> ... The economy is now so weak, we're told, there are even fears that this year's annual Christmas spending binge could - wait for it! - end up being less binge-like than 2006. Having spent a grotesque £12bn on festive excess last year, we face the grave danger that the British public may actually spend slightly less during this season's yuletide splurge.
>
> Who cares that more than half of us haven't yet repaid the money we borrowed last Christmas? Who cares that Britain now accounts for more than two-thirds of the EU's entire credit card debt?
>
> Clearly, almost no one - because yesterday the shopping centres were packed and the

tills were ringing non-stop - Britain's debt-fuelled shopathon continuing anew.

... But would we have entered recession had the MPC not cut rates on Thursday, as many City whizz-kids claimed? I think not. My prediction of 1.5 per cent growth next year is at the gloomy end of the spectrum. But a "recession" means six months of negative growth - and we're miles away from that.

The real danger remains inflation - which, in case anyone has forgotten, jumped from 1.8 to 2.1 per cent in October. That's above the Bank's target, and the early evidence suggests that prices rises in November hit a 10-year high.

With oil nudging $100 a barrel and food prices sky-high, price pressures won't abate soon - not while the emerging markets keep booming. And yet, incongruously, we've just seen the first of what everyone says will be a series of interest rate cuts.

... Then, of course, there's "sub-prime" and the ensuing credit crunch. The Bank was spooked into a rate cut because of soaring "interbank premiums" - that is, the gap between the base rates and the rate at which banks lend to each other.

Such high "market rates" are now harming the economy, the argument goes. But why are these rates high? It's because the banks still refuse to disclose the enormity of their "sub-prime" losses - so are nervous about lending to other banks.

The thing that will solve that isn't lower base rates but an open self-assessment by the banking industry and a rigorous reappraisal of lending practice. That sounds puritanical, but it's true. The US Federal Reserve has slashed rates lately, and interbank premiums have stayed high.

Now the MPC has failed to tame our credit market too. On Friday, despite the cut, UK interbank premiums actually rose. And that's what is really scary. Having fired off an interest rate salvo, the Bank of England has shot its bolt.

3c/ Sub-prime ruts and interest rate cuts (The Sunday Telegraph, Sun 16 Dec)

http://www.telegraph.co.uk/money/main.jhtml?view=DETAILS&grid=A1YourView...

Comment: Liam Halligan follows up on the article above. He received a lot of criticism from the Investment banks.

There's little point being a newspaper columnist unless you provoke a reaction. So, while I've been pilloried for my latest effort, I'm not complaining.

Last weekend I said the Bank of England was wrong to cut interest rates to 5.5 per cent. Lower base rates would simply aggravate inflation, I argued, doing little to ease the ongoing credit crunch.

I wasn't surprised to be attacked. With house prices shaky and Christmas looming, I suspected many Telegraph readers were rejoicing in lower rates. Funnily enough, most readers' comments were positive, agreeing that rate cuts would make matters worse.

The volley of critical e-mails hailed from the City - in particular, the investment banks. "How could you be so irresponsible?" they ask. "We need multiple interest rate cuts."

I don't agree. So I want to reinforce my previous argument and observe - without a hint

of satisfaction, for this crisis is serious - that what has happened since last weekend seems to be bearing out my arguments.

Firstly, my detractors tell me I'm wrong because almost every other economist wants rate cuts. But I don't mind standing alone. An article of mine appeared in this space in August 2005 - three days after rates were eased to 4.5 per cent, the first reduction in two years.

... But that's not how things worked out. That rate cut, as I predicted, did spark inflation and renewed the credit frenzy. And the next move in rates was up - even if it took a year to happen.

... The current situation is very different from 2005, but in some respects the same. Once again, the Bank is lowering rates in the face of rising inflation.

In October, CPI inflation jumped from 1.8 to 2.1 per cent - above the Bank's 2 per cent target. As Bank Governor Mervyn King has lately remarked, with oil and food prices high, inflation remains "a serious threat".

... So, in the coming months, the UK, US and Europe will have to keep swallowing sky-high energy costs even though our economies will have stalled - a nasty, inflationary combination.

And the news on inflation gets worse. A new Bank of England survey says inflationary expectations have rocketed. We now "sense" inflation is at 3 per cent - a seven-year high.

... So, I return to my contention that the only way we'll reduce Libor, and get credit markets working, is if the banks start trusting one another again - and are happy to extend each other credit.

And that won't happen until there is an open, and very thorough "fessing up" of just how much of this sub-prime junk they all own.

It's easy for the City high-rollers to lean on politicians and central bankers, and demand rate cuts. It's easy to claim that arguing otherwise is irresponsible.

What's much harder is honesty and leadership. But that's what is now needed from the banks if the Western world is to escape this sub-prime rut.

3d/ London house price fall of 6.8% in past month stokes economy fears (The Times, Mon 17 Dec)

http://business.timesonline.co.uk/tol/business/money/property_and_mortga...

House prices in London have fallen by an average of £28,000 in the past month, as the capital sets the pace of an accelerating property downturn, a leading survey reports today.

Rightmove, the property website that tracks asking prices for homes across the market, says that prices tumbled by £20,000 a week in affluent Kensington and Chelsea – and by more than £10,000 a week in inner-city Hackney.

The company’s data shows that house prices fell by 3.2 per cent across the country, and by 6.8 per cent in London, over the month to the middle of December.

> The figures are the gloomiest that homeowners have had to face since the market began to turn this autumn...

4 / Saudi Arabia's Greater Khursaniyah Area (GKA) project delayed by 6 months (Energy intelligence, Thu 13 Dec)

No link, newsletter.

Comment: From the “World Watch -- Comment & Interpretation on Today's News” part of the daily newsletter. The info below on Saudi Arabia's Greater Khursaniyah Area (GKA) project is an excellent example of why global oil supply has not been meeting forecast the last couple of years. This project is supposed to bring on an additional 800,000 b/d liquids this month, but will be delayed by about 6 months. That is 400,000b/d removed from the annual average. Re-adjust your forecasts!

> Saudi Arabia's Greater Khursaniyah Area (GKA) project to add 500,000 b/d of Arab Light grade production, along with 300,000 b/d of other liquids, is understood to be missing its scheduled start up this month. State Saudi Aramco had been consistently upbeat about getting it done on time and was believed to be spending top dollar to assure its place at the front of the line for equipment and people needed to finish the project on time, if not on budget. But it seems even Saudi Aramco is not immune to the project delays now rampant in the oil industry. The project is now running behind schedule, with completion of oil facilities delayed until early March due to equipment shortages and installation of gas handling equipment backed up until June. With flaring probably not an option, oil production will have to wait for the gas handling to be in place, making for a six month delay for GKA, despite Saudi Aramco's best efforts.

5a/ Consumer bills set to soar as gas prices climb (Times Online, Fri 14 Dec)

http://business.timesonline.co.uk/tol/business/industry_sectors/utilitie...

Comment: It is difficult to see how the UK could ever return to cheap gas prices again. At the same time as prices are going up, and UK domestic production going down, there is a move towards more gas-fired power stations in the UK (or perhaps, there ‘was’), and there is a big move amongst local govt in the UK towards more combined heat and power from natural gas.

UK natural gas prices are at 60p/therm today. Upstream Online Natural Gas Prices, http://www.upstreamonline.com/market_data/?id=markets_gas.

> Centrica, the owner of British Gas, gave the clearest signal yet that energy bills are on their way up again, after it gave warning of a difficult environment for energy suppliers.
>
> Rising wholesale gas prices have reduced margins in the company's residential gas and electricity supply business in the second half, prompting British Gas, the UK's biggest supplier, to increase its key tracker tariff last week. However, today's statement makes clear that further price rises are likely to be necessary.
>
> "Looking forward, the high wholesale prices will, if sustained, create a more difficult environment for retail energy suppliers in the UK going into 2008. We will continue to monitor this with regard to future pricing policy," Centrica said.

> Since February, annual forward gas prices for 2008 have risen 42 per cent from 33p a therm to 47p a therm — about 10p more than industry forecasts, according to analysts. Spot prices have risen 55 per cent over the past year to about 42p a therm from 27p.
>
> ... The UK's major energy suppliers are all poised to follow British Gas's lead. npower, the third biggest supplier, confirmed today that customers following its tracker plan will see increases of 17 per cent for gas and 13 per cent for electricity from January 1.
>
> npower's increases will mean an average £87 more a year on gas bills and £44 more a year on electricity bills for tracker plan customers, the company said. Most of its customers will remain unaffected.
>
> The increases to the tracker rate are significant because they give an indication of how much standard tariffs are likely to rise by. Analysts said that it looked increasingly likely that standard tariffs would have to rise by 15 per cent, which would mean consumers having to find an extra £137 a year.

5b/ Business users warned of fuel cost problems (Financial Times, Mon 17 Dec)

http://www.ft.com/cms/s/0/712d9310-ac42-11dc-82f0-0000779fd2ac.html

Comment: Explains the multiple reasons for the high gas prices in the UK, including delayed LNG terminals and Langeled not living up to expectations.

> Rising natural gas and electricity prices are creating an unexpected problem for businesses this winter, and another worry for the Bank of England.
>
> The expected opening of several new import facilities had prompted hopes that gas prices would fall. But high oil prices and delays to some important projects have pushed up prices for natural gas, and hence electricity because of the use of natural gas for power generation.
>
> A year ago, wholesale energy prices rose in the run-up to Christmas, and then fell back sharply in January and February. The same may well happen again this winter.
>
> ... The worry for businesses, especially in energy-intensive industries, is that the balance of supply and demand is tighter than they had hoped. If we have an unusually cold winter, or there are supply disruptions, then the gas shortages and soaring prices of winter 2005-06 could be repeated...

6a/ Plenty of oil left in the global tank (The Sunday Times, Sun 16 Dec)

http://business.timesonline.co.uk/tol/business/columnists/article3055813...

Comment: A disappointing article from the Sunday Times. A fairly typical anti-Peak Oil viewpoint from an economist. You know where these articles are going as soon as you see one Michael Lynch quoted as a source of expertise and wisdom. Ditto the expression “the stone age did not end because the world ran out of stones”. This is the most daft anti-Peak Oil expression doing the circuit, but economists love it. On the bright side, I don’t think I have seen such an excellent set of feedback comments, not one of the 22 which seem to support the author. Also, one of the best articles ever written in the mainstream press was in the Times earlier this year, written by William Rees-Mogg, Are these the last days of the Oil Age?,

http://www.timesonline.co.uk/tol/comment/columnists/william_rees_mogg/ar....

6b/ Are commodities a bubble ready to burst? (The Sunday Telegraph, Sun 16 Dec)

http://www.telegraph.co.uk/money/main.jhtml?view=DETAILS&grid=&xml=/mone...

Comment: A Peak Oil article from the Telegraph's top economics journalist Ambrose Evans-Pritchard. Ambrose may well be misrepresenting what the book Limits to Growth actually forecast, but otherwise the gist of the article is spot on. Despite strong evidence that Peak might be close, commodity prices including oil can still dive, for a while anyway.

> Peak oil, peak metals, and this year peak food. Every bookshop has a corner warning that mankind will soon outrun the basic resources of the globe.
>
> It was ever thus. Variants of the theme emerge at the top of each commodity super-cycle, only to be deferred for another 20 years or so as new supply comes on-stream and technology outwits the pessimists. Shortage can turn to glut very fast once inflation forces central banks to hit the brakes.
>
> ... Base metals are creatures of the industrial cycle. The US is already in the grip of the worst housing crash since the Slump. It is exporting a manufacturing crunch to Europe through the dollar slide and the banking crisis. Japan is slipping into recession, says Morgan Stanley. No surprise that copper is down 23 per cent since early October after quadrupling in five years. Lead is off 42 per cent. Nickel has dropped 53 per cent since May.
>
> ... Oil refuses to buckle at all. Brent crude is hovering near $93 a barrel despite a shock report by the US intelligence concluding that Iran halted nuclear weapons work in 2003. It has left White House hawks beakless. The alleged war premium on oil has vanished, yet prices have barely flinched.
>
> "Will oil get to $100 a barrel? Yes, it's a done deal," says Paul Horsnell, commodities chief at Barclays Capital. Goldman Sachs have raised their forecast to $105 by the end of 2008, citing a chronic lack on investment.
>
> ... Oil output has been flat for two years, with the non-Opec trio of Britain, Norway, and Mexico in relentless decline.
>
> "Even at this price the oil companies still can't find any supply, which tells you that they are catching a serious crab," says Horsnell.
>
> ... "A supply-side crunch in the period to 2015, involving an abrupt escalation in oil prices, cannot be ruled out," said the International Energy Agency in its Outlook report.
>
> China's annual demand is growing at 0.4m barrels per day (bpd). It may reach 8m next year, or 9 per cent of world output. Global needs are expected to rise 50 per cent to 130m barrels by 2030, yet the heads of both Total and Conoco doubt whether output will ever reach 100m barrels before tipping over in 12 years or so.
>
> ... Once the emerging market boil is lanced we will find out where the core equilibrium price for oil, coal, iron, zinc, and soya beans really lies. Then we can strap up for the second leg super-cycle. Next time to the peaks.

7a/ US Food Inflation Parallels 70s on Ethanol Boom (Planet Ark [Reuters], Mon 17 Dec)

http://www.planetark.com/dailynewsstory.cfm/newsid/46080/story.htm

> Rising US food inflation, now a 25-year high, is reminiscent of the 1970s and will continue for the next five years due to growing world economies, increased food demand and a sharp expansion of corn-based ethanol production, a top food economist said Friday.
>
> "What happened in the early '70s and what is happening today is that we have moved food input price to a new plateau. Ultimately, the consumer is going to have to absorb those increased costs," said Bill Lapp, president of Advanced Economic Solutions, who on Thursday released a study that looked at food inflation data going back to the 1960s.
>
> Futures prices on the Chicago Board of Trade, the benchmark for commodity grain and soy markets, have risen to multi-year highs this year. Wheat hit an all-time high of US$9.81-3/4 a bushel just on Friday. Soybeans on Friday reached over US$11.60 a bushel, a price not seen since 1973, and corn rose to US$4.37-1/4 in February, the highest level in a decade.
>
> "The underpinnings for the higher commodity prices are world economic growth, a weak dollar and increased use of our corn crop for the production of ethanol," Lapp told Reuters in an interview.
>
> While most of the US corn crop, or 43 percent is fed to livestock to produce meat, dairy products and eggs, an increasing percentage is being used to produce ethanol. Twenty-four percent of this year's corn crop will be turned into ethanol, up from just 14 percent two years ago.
>
> ... "During the next five years, food inflation is forecast to increase by an average of 7.5 percent, well above the 2.3 percent average of the past 10 years...

7b/ World food price rises to hit consumers (Financial Times, Sun 16 Dec)

http://www.ft.com/cms/s/0/03de75c4-ac22-11dc-82f0-0000779fd2ac.html

> Global food prices were under further pressure on Monday as benchmark prices for cereals at much higher levels came into operation, making it almost inevitable that a second wave of food price inflation will hit the world's leading economies.
>
> In Chicago wheat and rice prices for delivery in March 2008 have jumped to an all-time record, soyabean prices are at a 34-year high and corn prices at an 11-year peak.
>
> ... Bill Lapp, analyst at US consultancy Advanced Economic Solutions, said: "We've already seen food prices increase this year at their fastest pace since the early 1980s, but the full brunt of those increases will begin in earnest in 2008."
>
> The agricultural commodities price rises are the result of high demand, poor harvests and low stockpiles of food. Emerging economies, where rising incomes are boosting consumption of meat and dairy products, have added to pressures already generated by the biofuel industry.
>
> Cereal supply was this season lower than expected as several countries suffered weather-related losses. Jean Bourlot, head of agriculture commodities at Morgan

Stanley in London, said: “High cereals prices are here to stay.”

The US Department of Agriculture has predicted that global corn stocks will fall to a 33-year low of just 7.5 weeks of consumption, while global wheat stocks will plunge to their lowest level in at least 47 years at 9.3 weeks.

8/ UK Oil and Gas Production Forecasts: An Overview (ODAC, Mon 10 Dec)

http://www.odac-info.org/

The London-based Energy Institute held its annual Oil Depletion conference on Nov. 14th. ODAC's contribution was a talk on UK oil and gas depletion, UK Oil and Gas Production Forecasts: An Overview, http://www.odac-info.org/bulletin/documents/UK_OilGas_Overview.ppt (PP PDF, 1.69 Mb).

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