



# Peak Oil News

## A Compilation of New Developments, Analysis, and Web Postings

[Tom Whipple](#), Editor

Monday, November 24, 2008

### Current Developments

#### [1. OIL FALLS BELOW \\$54 AS US DEMAND OUTLOOK WORSENS](#)

Pablo Gorondi  
Associated Press Writer  
November 27, 2008

Oil prices fell below \$54 a barrel Thursday as dismal U.S. economic data and rising crude inventories outweighed the possibility of production cuts by OPEC and Russia. By midday in Europe, light, sweet crude for January delivery was down 86 cents to \$53.58 a barrel in electronic trading on the New York Mercantile Exchange. Markets in the United States are closed Thursday for the Thanksgiving holiday, but electronic trading on the Nymex continues. The dollar's weakening against other major currencies helped the Nymex contract recover from a low of \$52.62 earlier in the session. Investors tend to increase their holdings in commodities like oil when the dollar falls and as a hedge against inflation. In London, January Brent crude fell 71 cents to \$53.21 on the ICE Futures exchange.

#### [2. OIL DROPS AS RECESSION RAISES CONCERNS OF FALLING FUEL DEMAND](#)

By Christian Schmollinger and Grant Smith

Nov. 27 (Bloomberg) -- Crude oil fell after economic reports in the U.S. showed a deepening recession that may cut fuel demand in the world's largest oil user. Consumer spending slumped the most in 7 years and orders for durable goods including refrigerators and washing machines declined twice as much as forecast, the Commerce Department said yesterday. Gasoline demand dropped 1.3 percent from last week, the Energy Department said in its weekly report. "Oil prices are very much influenced by fears of recession," said Sintje Diek, an analyst with HSH Nordbank in Hamburg. "The picture is of falling oil demand. We see inventories of crude oil continuing to rise, also gasoline, as consumers will drive less." Crude oil for January delivery dropped as much as \$1.82, or 3.3 percent, to \$52.62 a barrel in electronic trading on the New York Mercantile Exchange. It was at \$53.60 a barrel at 11:06 a.m. London time. Futures have dropped 64 percent since reaching a record \$147.27 on July 11.

#### [3. AS OIL PRICES FALL, TENSIONS AMONG OPEC MEMBERS SEEM TO DEEPEN](#)

By Jad Mouawad  
NY Times  
Thursday, November 27, 2008

For the first time in a decade, oil producers are facing a real test of their unity. As the OPEC cartel meets in Cairo on Saturday, exporters are being pummeled by a triple whammy of lower prices, falling demand and declining revenue. The group, whose members account for more than 40 percent of global oil exports, is desperately seeking ways to stop the drop in prices, which have fallen from their summer peaks at a record pace. But the Organization of the Petroleum Exporting Countries is increasingly torn between its moderate members, led by Saudi Arabia, which can afford a period of lower oil prices, and countries with high government spending, like Iran and Venezuela, which have become much more dependent on high prices. These two groups have often clashed in the past, and as prices plummet the tensions are once again bubbling to the surface.

## **4. OPEC CONSIDERS 1 MILLION-BARREL CUT AS OIL TUMBLES**

By Grant Smith and Mark Shenk

Nov. 26 (Bloomberg) -- OPEC nations, the producers of more than 40 percent of the world's oil, may cut output for the second time in as many months as recessions in the U.S. and Europe drag oil below \$50 a barrel. The Organization of Petroleum Exporting Countries will likely lower supplies before the end of the year after crude prices tumbled 67 percent, or nearly \$100, from July's record, according to 18 of 21 analysts surveyed by Bloomberg. Twelve of the people surveyed predicted the reduction will be at least 1 million barrels a day, more than is pumped by Qatar. OPEC ministers meet Nov. 29 in Cairo and again in Algeria on Dec. 17. "The pressure is on," said Harry Tchilinguirian, senior oil analyst at BNP Paribas SA in London. "To get the market's attention they will need to cut at least 1 million barrels a day, yet previously announced cuts are still ongoing," raising concern further reductions may not be made, he said.

## **5. RUSSIA TO WORK WITH OPEC TO STABILIZE OIL PRICES, MEDVEDEV SAYS**

By Steven Bodzin and Lyubov Pronina

Nov. 27 (Bloomberg) -- Russia will coordinate with members of the Organization of Petroleum Exporting Countries including Venezuela to keep oil prices from being "too low or speculatively high," President Dmitry Medvedev said. Major price swings aren't in the interest of either oil-producing or consuming countries, Medvedev said yesterday in a Caracas ceremony where he and Venezuela President Hugo Chavez signed energy accords. He said Russia would "coordinate fundamentally with Venezuela" and other OPEC nations, without specifying how. "We will be coordinating, but it doesn't mean that we'll be colluding, Medvedev said. Stable oil prices "are important for us and important for our economy, just as they are for the economy of Venezuela and other countries." Russia is the world's second-biggest oil producer after Saudi Arabia and isn't a member of OPEC, a cartel that produces about 40 percent of the world's oil.

## **6. RUSSIA SAYS GAS OPEC WILL NOT SET UP OUTPUT QUOTAS**

Wed Nov 26, 2008 11:51am EST

MOSCOW, Nov 26 (Reuters) - The world's top gas exporting nations will set up a formal organisation at a December summit in Moscow, a Russian official said on Wednesday, but denied the new body will seek to copy OPEC's production quotas. "No one is planning to regulate gas production volumes. It is a crazy idea," Deputy Energy Minister Anatoly Yanovsky told reporters. He said energy ministers from 16 gas exporting nations would meet in Moscow on Dec 23, as planned, to sign a charter for the new organisation. The comment follows a meeting on Wednesday of experts from a more informal gas exporters club, known as the Forum of Gas Exporting Nations, which discussed its draft charter. Yanovsky said the new organisation would make up a budget of contributions from the country members to fund research.

## **7. PERSIAN GULF TANKER RATES FALL TO ONE-YEAR LOW ON SHIP GLUT**

By Grant Smith

Nov. 26 (Bloomberg) -- The cost of shipping Middle East crude to Asia fell to the lowest in more than a year as ship supplies accumulated and OPEC prepared to weigh up a new production cut. The Organization of Petroleum Exporting Countries will likely lower output before the end of the year, according to 18 of 21 analysts surveyed by Bloomberg. OPEC meets in Cairo on Nov. 29. Freight rates on the benchmark route from Saudi Arabia to Japan, as measured by the London-based Baltic Exchange, fell to the lowest since Nov. 13, 2007. "With more than ample supply of vessels including a steady stream of newbuildings," the chances of reversing the decline "appear slim for the moment," Oslo-based shipbrokers Fearnleys AS said in a report today. The benchmark rate fell for a third today, by 1.6 percent to 64.22 Worldscale points. Worldscale points are a percentage of a nominal rate, or flat rate, for more

than 320,000 specific routes. Flat rates for every voyage, quoted in U.S. dollars a ton, are revised annually by the Worldscale Association in London to reflect changing fuel costs, port tariffs and exchange rates.

## **8. PRODUCTION CUTS - COUNTRY THREATENS TO IGNORE OPEC**

By Juliana Taiwo  
This Day (Lagos)  
26 November 2008

The Federal Government yesterday threatened that Nigeria may stop further cuts in crude oil production as directed by the Organisation of Petroleum Exporting Countries (OPEC) if other member countries within the cartel fail to obey the directives. OPEC, stung by what it called "a dramatic collapse" in crude oil prices, had announced last month after its 150th meeting in Vienna, Austria, that it would reduce output by 1.5 million barrels a day, deeper than expected, and suggested that more production cuts were coming as the global economic slowdown undermined oil demand. A number of member states of OPEC have announced cuts in crude oil production over the past few weeks. The announcement was made after an unusually brief emergency meeting of member states on October 24th. The cut was predicted to be the deepest since 2003, but the meeting failed to provide the price cushion that OPEC members had been hoping for.

## **9. MEDVEDEV, CHAVEZ SIGN OIL AGREEMENTS BEFORE WAR GAMES**

by Lyubov Pronina and Matthew Walter

Nov. 27 (Bloomberg) -- Russian President Dmitry Medvedev and Venezuelan President Hugo Chavez agreed to form joint ventures to pump crude oil and to increase military and nuclear cooperation yesterday in the first visit by a Russian president to the South American country. Medvedev and Chavez today will tour the Russian atomic-powered navy cruiser Peter the Great, which is visiting Venezuela along with three other Russian vessels. The ships will conduct exercises in the Caribbean Sea with the Venezuelan navy in the coming days. "We're developing full-fledged relations in the arms sphere," Medvedev told reporters in Caracas late yesterday. "These ties aren't directed against any other country. They are based on partnership and a pragmatic understanding of the situation in the world." Chavez, a long-time critic of the U.S., praised Russia's "resurgence" and called for an end to U.S. global economic hegemony during a ceremony at the presidential palace in Caracas.

## **10. CHINA DOWNTURN DEEPENS**

By Tomasz Janowski and Keith Weir  
Thu Nov 27, 2008 5:51am EST

SINGAPORE (Reuters) - China warned on Thursday its economic downturn was deepening with the spread of the global financial crisis and a senior European policymaker said woes could extend beyond 2009. In India, emerging Asia's other economic titan, financial markets were closed after Islamist militants killed more than 100 people in the commercial capital Mumbai. Violence in India and political unrest in Thailand highlighted political risk as an extra potential threat to emerging markets battered by the global crisis. "These awful events are reinforcing the nervousness about emerging markets, which have been weak any way for some time after the U.S. slowdown and the domino effect," said Justin Urquhart Stewart, investment director at Seven Investment Management in London. The economic warnings from China's top planner came a day after its central bank cut interest rates by the biggest margin in 11 years in response to the worst global downturn in decades.

## **11. CHINA MAY RELY ON IMPORTS FOR 38% OF NATURAL GAS NEEDS BY 2010**

By Winnie Zhu

Nov. 27 (Bloomberg) -- China may need to rely on imports for 38 percent of its natural gas needs by 2010, the nation's second-largest oil producer said. The world's second-largest energy-consuming country may use 120 billion cubic meters of the fuel a year by the end of the decade and its domestic production may reach 75 billion cubic meters by then, Xie Dan, vice general manager of China Petroleum & Chemical Corp.'s natural gas unit, said in the southern city of Xiamen today.

## **12. FRESH DATA REINFORCE US ECONOMIC GLOOM**

By Joanna Chung in Washington  
Financial Times  
November 26 2008 15:38

The severe impact of the credit crunch on US households and business investment was sharply illustrated on Wednesday with the latest wave of data showing collapses in new home sales, consumer spending and orders for durable goods in October. Sales of newly built US single-family homes dropped last month to levels last seen more than 17 years ago, according to data from the US commerce department. The annual sales pace of 433,000 was down 5.3 per cent in October, and lower than market expectations, from a revised 457,000 in September and was the weakest since January 1991. The median sales price of new homes fell to \$218,000 from \$221,700 the previous month and was the lowest since September 2004 when it was at \$211,600. "Everything in the October new home sales report is bad: supply is up, while prices and sales drop further," said Dmitry Fleming of Global Economics. Another set of figures showed a 1 per cent fall in personal consumption expenditures last month, the biggest drop in seven years, following a 0.3 per cent decrease in September.

## **13. OIL COMPANIES MAY CUT SPENDING TO PAY DIVIDENDS, BERNSTEIN SAYS**

By Eduard Gismatullin

Nov. 26 (Bloomberg) -- ConocoPhillips, Marathon Oil Corp. and other oil companies may cut investment plans to maintain dividend payments, Sanford C. Bernstein & Co. said. Royal Dutch Shell Plc, StatoilHydro ASA and other producers may postpone investment decisions in "marginal" projects such as North American tight, or hard-to-recover, gas and oil sands, and curtail an exploration and refining expansion, Neil McMahon, a London-based analyst at Bernstein, said in a report today. "Staying free-cash flow positive next year could be a struggle if companies want to grow dividends," McMahon wrote. With oil staying at about \$50 a barrel "the industry is likely to see the first cuts in exploration" since 1999, he said. Oil futures declined a record 33 percent in October on signs an economic recession in the U.S. and Europe is curbing fuel consumption. Crude fell about 64 percent after it touched record \$147.27 a barrel on July 11. Possible investment cuts and startup delays may affect production capacity in 2013 to 2016, encouraging a new cycle of rising oil and gas prices as demand exceeds supply, McMahon said.

## **14. GM VIABILITY PROPOSAL LEAK: CEO LIKELY TO WORK FOR \$1 AND BRANDS LIKELY TO BE SHED**

GM is working fervently on a "viability plan" which will be presented to Congress on December 2nd. If the plan is deemed capable of ensuring the company's future viability then a portion of \$25 billion in low interest bridge loans will be awarded. GM is trying to keep their plan's development under tight wraps. When unveiled it is expected a 10 to 12 page public version will be presented along with an 80 page private version for lawmakers' eyes only. Today reports citing anonymous sources have leaked out some aspects of the plan under consideration. One component includes sacrifices from top executives who may even work for \$1 per year. As well concessions from the autoworker union (UAW) including the elimination of a controversial "job bank" program under which laid-off workers continue to get paid.

## **15. U.S. SAYS 60 OF 3,800 GULF OIL, GAS PLATFORMS DESTROYED BY IKE**

By Daniel Whitten

Nov. 26 (Bloomberg) -- The U.S. government said 60 of about 3,800 oil and natural-gas production platforms in the Gulf of Mexico were destroyed by hurricanes Gustav and Ike. The platforms were capable of producing 13,657 barrels of oil and 96.5 million cubic feet of natural gas a day, the U.S. Minerals Management Service said in an e-mailed statement today. An additional 31 platforms damaged by the storms may take three to six months to repair, the agency said in its final planned assessment of the impact of the hurricanes. The Minerals Management Service, part of the U.S. Interior Department, previously said 49 platforms were destroyed by the storms. Rigs in the U.S. Gulf normally produce about

1.3 million barrels of oil a day and 7.4 billion cubic feet of gas. Hurricane Ike made landfall on the Gulf Coast of Texas Sept. 13, less than two weeks after Hurricane Gustav struck the Louisiana coast.

## **16. RUSSIA'S COMEUPPANCE**

Not long ago the balance of global power was shifting toward Russia. The economic crisis has put a stop to that.

Stephen Sestanovich  
Council on Foreign Relations  
Newsweek  
Nov 26, 2008

Any international economic crisis afflicts different countries in different ways, but an unfortunate few experience every painful dimension of it. In the current crisis, Russia is confronting virtually all the negatives at once--sharply declining export earnings from energy and metals, over-leveraged corporate balance sheets and a chorus of bailout appeals, a credit crunch and banking failures, a bursting real-estate bubble and mortgage defaults, accelerating capital flight, and unavoidable pressures for devaluation. The Russian stock market is down 70 percent from late spring. The government has burned through more than 20 percent of its foreign-exchange reserves since August. The outflow of capital in October alone was \$50 billion. Next year's budget is based on a projected average price for oil of \$95 per barrel; now budget planners have to work with forecasts of \$50 or lower. Since Finance Minister Alexei Kudrin has said that Russian government spending goes into deficit at \$70 per barrel, pressures for spending cuts are starting to mount. Severe reductions have already been announced in housing and education programs.

## **17. EAGC: CREDIT CRISIS TO AFFECT EUROPEAN GAS PROJECTS**

Uchenna Izundu  
International Editor

LAKE COMO, ITALY, Nov. 25 -- Eni Gas & Power SPA Chief Operating Officer Domenico Dispenza warned in a keynote address at the European Autumn Gas Conference (EAGC) at Lake Como, Italy, that the credit crisis could seriously affect the supply and diversity of gas supply projects in Europe. Dispenza said extreme volatility in stock and commodity prices were complicating the planning of major developments, and the drying up of financing has led to unprecedented government intervention in the market. "The forecasting of the medium and long-term European gas demand will become a difficult exercise as the common wisdom of its unstoppable growth is being challenged by two full years of decrease—the combined effects of mild winters, marginal fuel competition, and efficiency measures," Dispenza said. European gas companies have proposed a number of pipelines and LNG import terminals to bring in natural gas from Russia, Algeria, and Qatar to meet the growing deficit in gas supplies. But Dispenza stressed that infrastructure developments would be difficult without major finance and that strong upstream resources and a good project framework would be crucial going forward.

## **18. GAZPROM THREATENS UKRAINE WITH PRICE RISE**

By Sophia Kishkovsky  
NY Times  
Wednesday, November 26, 2008

MOSCOW: Gazprom said Wednesday that if Ukraine did not pay a \$2.4 billion debt, the company might more than double the price of natural gas, a move that would deal a harsh blow to Ukraine's economy. The Russian state-controlled natural gas monopoly said it would try to "avoid" cutting off supplies to Ukraine. Gazprom briefly cut off the flow of gas in 2006 in a dispute that disrupted supplies throughout Europe. Most of the gas Russia sends to Europe is piped through Ukraine. "We will certainly try to take into account all the lessons of that situation and make every effort to avoid events developing according to this scenario," Sergei Kupriyanov, a Gazprom spokesman, told reporters during a conference call Wednesday. Gazprom has said that an Oct. 2 memorandum signed by Prime Minister Yulia Tymoshenko of Ukraine and Prime Minister Vladimir Putin of Russia would lead to a long-term agreement on supplies and a transition to market prices over a three-year period, beginning Jan. 1, provided Ukraine pays its debt.

## Discussion and Analysis

### 19. IRAQ'S OIL: THE GREATEST PRIZE OF ALL?

Posted by [Big Gav](#)

[TOD: Australia/New Zealand](#)

November 26, 2008 - 8:27pm

I am saddened that it is politically inconvenient to acknowledge what everyone knows: the Iraq war is largely about oil - [Alan Greenspan](#) (2007) [The Guardian](#) had an interesting article recently on discussions about exploiting 40 billion barrels of Iraqi oil reserves. The biggest ever sale of oil assets will take place today, when the Iraqi government puts 40bn barrels of recoverable reserves up for offer in London. BP, Shell and ExxonMobil are all expected to attend a meeting at the Park Lane Hotel in Mayfair with the Iraqi oil minister, Hussein al-Shahristani. Access is being given to eight fields, representing about 40% of the Middle Eastern nation's reserves, at a time when the country remains under occupation by US and British forces. Two smaller agreements have already been signed with Shell and the China National Petroleum Corporation, but today's sale will ignite arguments over whether the overthrow of Saddam Hussein was a "war for oil" that is now to be consummated by western multinationals seizing control of strategic Iraqi reserves.

### 20. IS \$70-\$80/BBL WTI A LONG-TERM OIL PRICE FLOOR?

PennEnergy

Nov 26, 2008

Oil markets are on tenderhooks regarding an OPEC meeting in Cairo this week that will almost certainly raise the question of whether another production cut of 1–1.5 million b/d will halt the downward spiral of oil prices, especially coming ahead of the winter heating season. But even if that effort fails, and desperate times are ahead for the oil industry, they aren't likely to last long. The fundamentals of adding to oil supply militate against a protracted price slump even if economic recovery drags on. That said, what is the built-in longer-term floor for oil prices? One analyst puts it at \$70–80/bbl and cites Canadian oil sands economics as the basis for that outlook. Raymond James & Associates contends that Canadian oil sands is one of only three non-OPEC areas with real long-term potential for supply growth (Brazil and the Caspian being the other two), and thus oil sands economics are relevant to long-term oil prices.

### 21. GASOLINE'S CHEAP AGAIN, BUT PEAK OIL STILL LOOMS LARGE

Energy Tribune

Given the news from the past few months, it borders on the foolhardy to preach about the looming dangers of peak oil. Doing so seems a bit like warning about the possibility of drought while standing without an umbrella in the midst of a torrential downpour. Indeed, the price of oil has plummeted from its July peak of \$145 per barrel (for West Texas Intermediate at Cushing, Oklahoma) to under \$80 by early October. The price collapse coincides with a big drop in oil demand. The Energy Information Administration now expects that U.S. consumption will fall by 4 percent this year. And credit-card issuer MasterCard estimates that gasoline demand during the first week in October fell by 9.5 percent compared to the year-earlier period. Indeed, it appears that the demand destruction associated with the rapid run-up in oil prices has for the moment obliterated all talk of oil going to \$200 in the next year or two, or three. Over the longer term, the key question appears obvious: will demand destruction take the "peak" out of peak oil? (I'll come back to that in a moment.)

## Alternatives

### 22. NOW WE'RE COOKING WITH ... BATTERIES

Electric storage is the weak link in a high-tech world. Fixing it could improve our lives—and the planet.

Keith Naughton

Newsweek  
Dec 1, 2008

The energizer bunny is nowhere to be found inside the suburban Milwaukee research lab run by Johnson Controls. But all around the facility, behind signs marked DANGER: HIGH VOLTAGE, blue-coated workers are torturing a new generation of batteries, testing whether they, like the fuzzy commercial icon, can keep going ... and going. In one building, this work is done inside hulking Thermotron machines, which look like extras from the movie "Monsters, Inc." Nesting inside are lithium-ion batteries being repeatedly cooled to 40 below zero, heated to 185 above and run continuously to mimic 150,000 miles of driving in an electric car. Today most of this business's revenue comes from old-fashioned car batteries. But here in the research lab, there's an urgent focus on perfecting these next-generation models. "Up until now, this has been a science project," says Alex Molinaroli, the unit's president. "What's changed is, this is moving to a much larger strategic issue for our industry, for our country and for the planet."

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## 1. OIL FALLS BELOW \$54 AS US DEMAND OUTLOOK WORSENS

Pablo Gorondi  
Associated Press Writer  
November 27, 2008

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Investors tend to increase their holdings in commodities like oil when the dollar falls and as a hedge against inflation.

In London, January Brent crude fell 71 cents to \$53.21 on the ICE Futures exchange.

Prices have hovered just above three-year lows this week as bad economic news painted a bleak picture of U.S. demand for crude.

The Commerce Department on Wednesday said orders to U.S. factories for big-ticket manufactured goods plunged in October by the largest amount in two years. The 6.2 percent drop was more than double the 3 percent decline economists expected.

The department also said Americans cut their spending in October by the largest amount since the 2001 terrorist attacks. Consumer spending plunged by 1 percent last month, worse than the 0.9 percent decline that had been expected.

The fall in consumer spending has shown up in rising oil and gasoline inventories. For the week ended Nov. 21, crude stocks jumped by 7.3 million barrels, the Energy Department's Energy Information Administration said in a weekly report Wednesday. Analysts had expected a boost of only 400,000 barrels.

Gasoline inventories rose by 1.9 million barrels. Analysts expected stockpiles to rise by only 300,000 barrels

"It looks like \$50 is a support level," said Gerard Rigby, an energy analyst with Fuel First Consulting in Sydney. "But when it gets up to \$54, people take profits. No one wants to get too bullish."

Prices have fluctuated between about \$50 and \$54 a barrel this week as investors grapple with the impact the global economic slowdown will have on crude demand.

The Nymex contract rose \$3.67 overnight to settle at \$54.44 on expectations China's biggest interest rate cut in 11 years — and the fourth in three months — will boost growth and demand for oil in the world's second-largest economy.

"People are still confused about the overall global economic situation," Rigby said. "Traders were looking for supportive news, so they looked to the China rate cuts."

"But for the next few months, everyone is going to be worried about the U.S. economy since it's still the largest in the world."

The dollar weakened Wednesday, helping to limit oil's losses. By midday in Europe, the euro was worth \$1.2945, up from \$1.2899 on Wednesday, while the British pound rose to \$1.5491 from \$1.5350 in the previous session.

The dollar also retreated against the Japanese currency, to 95.33 yen from 95.65 yen on Wednesday.

Expectations of a production cut by the Organization of Petroleum Exporting Countries has helped support prices. OPEC, which accounts for 40 percent of global supply, will hold an informal meeting Saturday in Cairo and an official meeting Dec. 17 in Algeria.

Some OPEC members, such as Venezuela, have called for the group to reduce output quotas by 1 million barrels a day at the Cairo meeting, while OPEC President Chakib Khelil has said the organization needs more time to evaluate the effect of previous production cuts.

The group cut output by 1.5 million barrels a day last month.

"I wouldn't be surprised if they announce a cut this Saturday," Rigby said. "Anything they can do to get prices back up, they will. It will have to be between 500,000 and 1 million to get the traders interested."

Investors will also be eyeing Russia to see if the oil exporter joins OPEC in cutting output. Russian Energy Minister Sergei Shmatko said this week his country will support any production cut OPEC makes.

"They may talk about it, but I'd be surprised if they actually did it," Rigby said. "Russia wants all the benefits of what OPEC does to boost prices, but I don't know if they really want to cut their production and their revenue."

In other Nymex trading, gasoline futures fell 1.98 cents to \$1.16 a gallon. Heating oil dropped 1.27 cents to \$1.724 a gallon while natural gas for January delivery slid 8.2 cents to \$6.796 per 1,000 cubic feet.

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## 2. OIL DROPS AS RECESSION RAISES CONCERNS OF FALLING FUEL DEMAND

By Christian Schmollinger and Grant Smith

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Crude oil for January delivery dropped as much as \$1.82, or 3.3 percent, to \$52.62 a barrel in electronic trading on the New York Mercantile Exchange. It was at \$53.60 a barrel at 11:06 a.m. London time. Futures have dropped 64 percent since reaching a record \$147.27 on July 11.

Markets in the U.S. will be shut today because of the Thanksgiving holiday. Floor trading at Nymex will be halted as electronic transactions continue.

Brent crude oil for January settlement fell as much as \$1.94, or 3.6 percent, to \$51.98 a barrel on London’s ICE Futures Europe exchange. It was at \$53.20 a barrel at 11:06 a.m. London time.

#### Inventories

U.S. crude-oil supplies rose 7.28 million barrels to 320.8 million barrels last week, the Energy Department said. It was the ninth straight increase, the longest stretch since April 2005. Stockpiles were forecast to climb 1 million barrels, according to the median of 14 analyst estimates in a Bloomberg News survey.

Gasoline inventories rose 1.84 million barrels, or 0.9 percent, to 200.5 million barrels, the department said. A 500,000 barrel gain was forecast, according to the survey.

Crude oil demand may climb as refineries boost processing. Refineries increased operating rates by 1.3 percentage points to 86.2 percent of capacity, the highest since September. A 0.1 percentage-point gain was forecast.

The Organization of Petroleum Exporting Countries, which controls more than 40 percent of the world’s crude, is due to meet in Cairo on Nov. 29.

OPEC nations may cut output for the second time in as many months after recessions in the U.S. and Europe dragged oil below \$50 a barrel. Last month, they agreed to cut production by 1.5 million barrels a day.

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### 3. AS OIL PRICES FALL, TENSIONS AMONG OPEC MEMBERS SEEM TO DEEPEN

By Jad Mouawad  
NY Times  
Thursday, November 27, 2008

For the first time in a decade, oil producers are facing a real test of their unity.

As the OPEC cartel meets in Cairo on Saturday, exporters are being pummeled by a triple whammy of lower prices, falling demand and declining revenue. The group, whose members account for more than 40 percent of global oil exports, is desperately seeking ways to stop the drop in prices, which have fallen from their summer peaks at a record pace.

But the Organization of the Petroleum Exporting Countries is increasingly torn between its moderate members, led by Saudi Arabia, which can afford a period of lower oil prices, and countries with high government spending, like Iran and Venezuela, which have become much more dependent on high prices.

These two groups have often clashed in the past, and as prices plummet the tensions are once again bubbling to the surface.

When oil prices collapsed to \$10 a barrel in 1998, OPEC producers managed to set aside their squabbles to push prices back up. Thanks mostly to a growing global economy and tightening supplies, producers saw a sharp rally in oil prices over the last 10 years.

But as the global economy sputters, the recent decline in oil prices has been staggering, and producers have been incapable of slowing the slide.

After rising above \$145 a barrel this summer, oil prices have fallen below \$55 a barrel, their lowest level in more than three years. Instead of coasting on growing demand, producers are confronted with a significantly different environment, and must adapt to a world of slowing consumption and overflowing oil supplies. They must also contend with hundreds of billions of dollars in lost revenue.

In the last two months, OPEC agreed to cut its output by two million barrels a day. While analysts say members of the cartel are generally abiding by their pledge, the effect on the market has failed to materialize so far.

Since the group's last meeting a month ago, OPEC's reference basket price — an average of oil grades sold by producers of the cartel, including Saudi Arab Light and Sahara Blend from Algeria — has fallen by more than half, reaching a low of \$42 a barrel last week.

The cartel's traditional hawks have been pushing for a more aggressive cut in production this week, and there is talk of trying to rally non-OPEC producers to help stabilize the market. The oil minister of Venezuela, Rafael Ramirez, suggested the cartel should reduce its production by an additional one million barrels a day, a position that was endorsed by Iran.

But a decision is far from certain and some producers are dragging their feet. OPEC's president, Chakib Khelil, said the group needed to see how well producers were complying with their prior commitments to pare supplies before agreeing to a new cut. The group is scheduled to meet again in Algeria next month.

"There are disagreements between producers," said Greg Priddy, an oil analyst at Eurasia, a political consulting group in Washington. "Some members are below their pain threshold, especially Iran. But the Saudis will not allow themselves to be strong-armed. They want to see how everyone is complying before agreeing to another round of cuts."

Guy Caruso, the former administrator of the Energy Information Administration, said the Saudis have been cautious so far, trying to balance their budget requirements with concerns about the global economy. Even if OPEC agreed to a new cut in production, analysts doubt that all the countries would abide by their quotas, and it would fall to Saudi Arabia to shoulder the brunt of the cutbacks.

"The Saudis have the longer-term view," Caruso said. "They don't want to be in the situation they were in the 1980s when almost all the burden fell on them to defend the price."

The drop in prices is threatening the economic and political foundations of many oil producers. Iran's populist president, Mahmoud Ahmadinejad, is expected to run for re-election next year while Hugo Chávez of Venezuela is being contested in local elections at home. Both countries need oil above \$90 a barrel to balance their budgets, according to various estimates.

"The Iranians, the Russians and the Venezuelans, who had benefited the most from the rise in price, are the ones paying dearly now with the collapse," said Lawrence Goldstein, a veteran energy analyst.

But while different producers have competing agendas, the drop in prices has been so rapid that even moderates are feeling the sting.

"Prices have gotten to a point that they are hurting everybody now," Goldstein said. "A world of \$50 oil or less is in no one's interest within the organization."

This weekend's meeting may include proposals to open consultations with producers outside of the cartel, the Iranian envoy has indicated, and could set the contours for a coordinated response between OPEC

and non-OPEC producers like Mexico and Russia. In the late 1990s, Norway and Mexico trimmed their production to bolster oil prices after the Asian economic crisis.

The Russian energy minister, Sergei Shmatko, on Tuesday suggested that his country might reduce its output in tandem with OPEC. He said that Russia required \$95 a barrel next year, otherwise its budget would be strained and its currency would suffer.

But with its production already declining this year because of a lack of investments, it is unlikely that Russia will follow through, analysts said.

Over the last decade, OPEC has stepped in three times with large production cuts to stop prices from falling in 2001, 2003 and 2006. Only once, however, did producers fully comply with their pledges to trim their output, according to analysts at Barclays Capital.

When prices last fell toward \$50 a barrel, at the end of 2006, members of the cartel agreed to cuts totaling 1.7 million barrels a day but they cut only 900,000 barrels a day, according to Barclays.

Yet prices rebounded because oil production from non-OPEC producers, like Mexico and Norway, was disappointing and consumption kept rising.

Now, even if OPEC agrees to reduce its output further, it is doubtful that oil will rebound soon. In the past, it has typically taken three to six months for oil prices to rise after OPEC trims supplies, according to Deutsche Bank.

"In terms of crude oil, we believe downward pressure on prices is likely to persist throughout next year," according to a report by Deutsche Bank. "OPEC will struggle to cut production as fast as world growth is slowing over the next 12 months."

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#### 4. OPEC CONSIDERS 1 MILLION-BARREL CUT AS OIL TUMBLES

By Grant Smith and Mark Shenk

Nov. 26 (Bloomberg) -- OPEC nations, the producers of more than 40 percent of the world's oil, may cut output for the second time in as many months as recessions in the U.S. and Europe drag oil below \$50 a barrel.

The Organization of Petroleum Exporting Countries will likely lower supplies before the end of the year after crude prices tumbled 67 percent, or nearly \$100, from July's record, according to 18 of 21 analysts surveyed by Bloomberg. Twelve of the people surveyed predicted the reduction will be at least 1 million barrels a day, more than is pumped by Qatar. OPEC ministers meet Nov. 29 in Cairo and again in Algeria on Dec. 17.

"The pressure is on," said Harry Tchilinguirian, senior oil analyst at BNP Paribas SA in London. "To get the market's attention they will need to cut at least 1 million barrels a day, yet previously announced cuts are still ongoing," raising concern further reductions may not be made, he said.

OPEC producers and drillers from Exxon Mobil Corp. to BP Plc are already suffering from falling prices, and OPEC President Chakib Khelil said prices have declined enough to threaten future energy investments. OPEC's oil export revenue will be \$979 billion in 2008, 9.6 percent less than expected a month ago, because of sinking crude prices, the U.S. Energy Department forecasts.

The Cairo summit, originally intended for only the group's Arab members, was expanded to a full OPEC meeting as oil prices dropped to a 21-month low.

Remove Surplus

Khelil, also Algeria's oil minister, said Nov. 24 a reduction of 1 million barrels a day "is not going to be enough" to wipe out a surplus in the market. OPEC needs to wait for data early next month to make an informed decision, he said.

"First we need to find out whether what we have cut has been acted upon," Khelil said in Vienna. "By that time we'll also have an idea about the stocks level, depending on the deterioration of the situation, whether demand is falling or stabilizing. As of now I don't think anyone can make a decision."

Iran's OPEC governor, Mohammad Ali Khatibi, said Nov. 14 the group is "very likely" to recommend a new cut.

Venezuelan Oil Minister Rafael Ramirez said today he will support a reduction of "at least" 1 million barrels a day, and that the Cairo meeting will be concerned with ensuring compliance with previous accords. The country's president, Hugo Chavez, said Nov. 24 the group should target oil between \$80 and \$100 a barrel, reviving a "price band" system used in the 1990s.

### Greater Compliance

Nigerian Petroleum Minister Odein Ajumogobia said he will press for greater compliance with the previous cutback, rather than seek another reduction. Saudi Arabia, the group's biggest producer, has yet to disclose its opinion.

"Presenting a moderate stance, but with a clear message that supply will be cut in Algeria is the most likely outcome from the Cairo meeting," JPMorgan Chase & Co. said in a report today.

At its Oct. 24 meeting in Vienna, OPEC pledged to reduce supply by 1.5 million barrels a day. The 11 members without quotas are about 500,000 barrels above that target, according to estimates from tanker-tracking consultant PetroLogistics Ltd.

"Compliance will be difficult in a downward spiraling market," said Victor Shum, senior principal at energy consultant Purvin & Gertz Inc. in Singapore. "They have budgets to meet and they want the other guy to cut so they get the full benefit of the higher prices."

### Oran Meeting

Among the analysts surveyed Nov. 21 by Bloomberg, 10 expect OPEC to lower production at the Cairo meeting. Another eight expect the decision to be taken later, when ministers meet Dec. 17 at Oran, on the Algerian coast.

Demand for oil may fall for the first time since 1983 next year, according to Merrill Lynch & Co., as the U.S., Europe and Japan face their first simultaneous recession since World War II. Oil futures touched a three-year low of \$48.25 on Nov. 21, down 67 percent from a July record of \$147.27. The contract traded near \$50 on the New York Mercantile Exchange today. Some grades of lower-quality Middle Eastern oil fetch less than \$45.

Oil use is dropping as the slowdown causes people to travel less, prompting British Airways Plc and Qantas Airways Ltd. to reduce capacity. The number of Americans traveling will fall for this week's Thanksgiving holiday by 600,000, or 1.4 percent, the first drop since 2002, according to U.S. motorist group AAA.

### OPEC Meeting

The U.S. Energy Department expects OPEC's earnings from oil imports to fall to \$595 billion next year from \$979 billion now.

"Most of them really need oil prices above \$60," Johannes Benigni, chief executive officer at JBC Energy in Vienna, said in a television interview. "OPEC is only going to be successful if their alliance is strong is determined."

Russia, the largest producer outside OPEC, "cannot rule out cutting production" and will "coordinate with OPEC" to defend the country's interests, Energy Minister Sergei Shmatko said yesterday in New Delhi. So far this year, Russia has resisted OPEC's calls for cooperation in constraining global oil supplies.

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## 5. RUSSIA TO WORK WITH OPEC TO STABILIZE OIL PRICES, MEDVEDEV SAYS

By Steven Bodzin and Lyubov Pronina

Nov. 27 (Bloomberg) -- Russia will coordinate with members of the Organization of Petroleum Exporting Countries including Venezuela to keep oil prices from being "too low or speculatively high," President Dmitry Medvedev said.

Major price swings aren't in the interest of either oil-producing or consuming countries, Medvedev said yesterday in a Caracas ceremony where he and Venezuela President Hugo Chavez signed energy accords. He said Russia would "coordinate fundamentally with Venezuela" and other OPEC nations, without specifying how.

"We will be coordinating, but it doesn't mean that we'll be colluding, Medvedev said. Stable oil prices "are important for us and important for our economy, just as they are for the economy of Venezuela and other countries."

Russia is the world's second-biggest oil producer after Saudi Arabia and isn't a member of OPEC, a cartel that produces about 40 percent of the world's oil.

Deputy Prime Minister Igor Sechin said Russia prepared a memorandum of understanding with OPEC that will let them share data and work together on oil forecasting. OPEC will consider the memo at an upcoming meeting, he told reporters after the ceremony.

Venezuela supports cutting oil production by at least a million barrels a day, Venezuelan Energy and Oil Minister Rafael Ramirez said in response to questions. If the cuts fail to stabilize prices, OPEC will keep reducing output, he said.

"Cutting has to happen," he said.

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## 6. RUSSIA SAYS GAS OPEC WILL NOT SET UP OUTPUT QUOTAS

Wed Nov 26, 2008 11:51am EST

MOSCOW, Nov 26 (Reuters) - The world's top gas exporting nations will set up a formal organisation at a December summit in Moscow, a Russian official said on Wednesday, but denied the new body will seek to copy OPEC's production quotas.

"No one is planning to regulate gas production volumes. It is a crazy idea," Deputy Energy Minister Anatoly Yanovsky told reporters.

He said energy ministers from 16 gas exporting nations would meet in Moscow on Dec 23, as planned, to sign a charter for the new organisation.

The comment follows a meeting on Wednesday of experts from a more informal gas exporters club, known as the Forum of Gas Exporting Nations, which discussed its draft charter.

Yanovsky said the new organisation would make up a budget of contributions from the country members to fund research.

The forum's country members include Algeria, Bolivia, Brunei, Egypt, Indonesia, Iran, Libya, Malaysia, Nigeria, Trinidad and Tobago, UAE, Qatar, Russia, Venezuela and two observer members -- Equatorial Guinea and Norway.

The idea of an OPEC-style gas group has sent a nervous tremor through the European Union and the United States, which have argued the market should set gas prices. Both have warned the cartel could pose a serious danger to global energy.

The EU's envoy to Russia, Marc Franco, told Reuters last week a 'gas OPEC' was good for European consumers if it did not act as a pricing cartel. [ID:nLL130633]

Europe's top suppliers, including global No. 1 producer Russia, say the new organisation would help better structure long-term gas needs and coordinate capital expenditure programmes.

The three members of the future group - Russia, Iran and Qatar - whose combined output is more than half of global production - have agreed to set up what Moscow called a separate "gas troika", which they said would coordinate long-term investment plans. (Reporting by Katya Golubkova, writing Dmitry Zhdannikov; editing by Sue Thomas)

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## 7. PERSIAN GULF TANKER RATES FALL TO ONE-YEAR LOW ON SHIP GLUT

By Grant Smith

Nov. 26 (Bloomberg) -- The cost of shipping Middle East crude to Asia fell to the lowest in more than a year as ship supplies accumulated and OPEC prepared to weigh up a new production cut.

The Organization of Petroleum Exporting Countries will likely lower output before the end of the year, according to 18 of 21 analysts surveyed by Bloomberg. OPEC meets in Cairo on Nov. 29. Freight rates on the benchmark route from Saudi Arabia to Japan, as measured by the London-based Baltic Exchange, fell to the lowest since Nov. 13, 2007.

"With more than ample supply of vessels including a steady stream of newbuildings," the chances of reversing the decline "appear slim for the moment," Oslo-based shipbrokers Fearnleys AS said in a report today.

The benchmark rate fell for a third today, by 1.6 percent to 64.22 Worldscales points.

Worldscale points are a percentage of a nominal rate, or flat rate, for more than 320,000 specific routes. Flat rates for every voyage, quoted in U.S. dollars a ton, are revised annually by the Worldscale Association in London to reflect changing fuel costs, port tariffs and exchange rates.

Each flat rate assessment gives owners and oil companies a starting point for negotiating hire rates without having to calculate the value of each deal from scratch.

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## 8. PRODUCTION CUTS - COUNTRY THREATENS TO IGNORE OPEC

By Juliana Taiwo  
This Day (Lagos)  
26 November 2008

The Federal Government yesterday threatened that Nigeria may stop further cuts in crude oil production as directed by the Organisation of Petroleum Exporting Countries (OPEC) if other member countries within the cartel fail to obey the directives.

OPEC, stung by what it called "a dramatic collapse" in crude oil prices, had announced last month after its 150th meeting in Vienna, Austria, that it would reduce output by 1.5 million barrels a day, deeper than expected, and suggested that more production cuts were coming as the global economic slowdown undermined oil demand.

A number of member states of OPEC have announced cuts in crude oil production over the past few weeks.

The announcement was made after an unusually brief emergency meeting of member states on October 24th. The cut was predicted to be the deepest since 2003, but the meeting failed to provide the price cushion that OPEC members had been hoping for.

Fielding questions from State House Correspondents before the weekly Federal Executive Council (FEC) meeting, the Minister of State Energy (Petroleum), Mr. Odein Ajumogobia (SAN), warned that not until all the member countries comply with OPEC directive for an earlier cut, Nigeria would not carry out any further production cut of daily crude production.

Following the directive, the Minister said Nigeria had cut its daily crude oil production by 113,000 barrels per day (bpd) pegging its daily production at 2.05million bpd.

"Our position is that we want to ensure that everybody has complied with the previous cut. We have complied and we were asked to cut 113,000 bpd and we have cut 113,000 bpd. At the last meeting when there was a cut we found out that a lot of countries did not comply, so before we look at any further cut, we first want to be sure that everybody has complied.

"We are producing what we agreed to produce which is 2.05million bpd even though we have a capacity of significantly higher than that but we have complied with the cut strictly," he said.

Ajumogobia said it is only when everybody has cut that a decision would be taken to know if there is need for any further production cut.

Asked if non-compliance by some member states was not an indication of a divided house, he said: "I think when you have a group and have diverse interests within the group, sometimes it is not and that is why we have been very successful in notwithstanding the diversity of interests, we are able to build consensus."

He said Nigeria would not break ranks and would continue to work with other OPEC member states for the unity and common goals of the organisation.

"Nigeria will not break ranks with the consensus but as I said we want to make sure that there has been compliance with the previous directive from OPEC," Ajumogobia said.

He said if Nigeria finally agreed to a further cut it would affect the budget but noted that the excess revenue made previously would help mitigate the anticipated loss.

"If we cut it will affect the budget. It will affect the total revenue. The revenue is based on the benchmark plus volume, so if it comes to volume you may just have to adjust the budget again but I don't think we need to do that because we can always mitigate it based on the fact that we have significant excess from the high price and we can probably mitigate some of that loss," he said.

"There are two issues there, price and volume and for a country like Nigeria that depends on the commodity, we depend on both. For that reason, naturally that is the thinking of everybody, nobody is anxious to cut and that is what I am saying that they quoted me out of context," he said.

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## 9. MEDVEDEV, CHAVEZ SIGN OIL AGREEMENTS BEFORE WAR GAMES (UPDATE1)

by Lyubov Pronina and Matthew Walter

Nov. 27 (Bloomberg) -- Russian President Dmitry Medvedev and Venezuelan President Hugo Chavez agreed to form joint ventures to pump crude oil and to increase military and nuclear cooperation yesterday in the first visit by a Russian president to the South American country.

Medvedev and Chavez today will tour the Russian atomic-powered navy cruiser Peter the Great, which is visiting Venezuela along with three other Russian vessels. The ships will conduct exercises in the Caribbean Sea with the Venezuelan navy in the coming days.

"We're developing full-fledged relations in the arms sphere," Medvedev told reporters in Caracas late yesterday. "These ties aren't directed against any other country. They are based on partnership and a pragmatic understanding of the situation in the world."

Chavez, a long-time critic of the U.S., praised Russia's "resurgence" and called for an end to U.S. global economic hegemony during a ceremony at the presidential palace in Caracas.

Venezuela, the fourth-biggest supplier of foreign crude oil to the U.S., increasingly relies on investment from countries like Russia, China and Iran to boost oil output.

"Russia is back on its feet and playing an important role," Chavez said. "I'm committed to continue to work together like this, without letting up."

#### 'Poles of Strength'

Medvedev arrived in Venezuela after visiting Peru and Brazil as part of a Latin America tour. He will fly to Cuba today, winding up a week-long visit to promote economic and political ties in the region.

"The world is becoming multipolar," Mikhail Margelov, chairman of the Foreign Affairs Committee in Russia's upper house of parliament, said yesterday at the event in Caracas. "Latin America is also one of the poles of strength."

"Russia is back in Latin America, Russia is back in Africa, and Russia is back in Asia," Margelov said. "We are ready to work in markets where we can be competitive."

AO Gazprom and four Russian oil companies will create a joint venture with Petroleos de Venezuela SA to pump and refine oil from the country's Orinoco Belt, Gazprom Deputy Chief Executive Officer Alexander Medvedev said yesterday in Caracas.

#### Arms Sales

The companies will jointly produce oil from the Carabobo area, site of the biggest reserves in the Orinoco. The venture will also build a facility to refine tar-like crude into lighter, more valuable oil for export, Medvedev said.

Other companies involved in the venture include OAO Rosneft, TNK-BP, OAO Lukoil and OAO Surgutneftegaz.

Chavez has been cozying up to Russia over the past few years, buying more than \$4.4 billion in weapons and promising access to Venezuelan oil fields for Russian companies.

Venezuela's Russian arms purchases include 100,000 Kalashnikov rifles, 50 military helicopters and 24 Su-30 jet fighters, according to a U.S. Defense Intelligence Agency report.

Chavez visited Russia in September and secured a \$1 billion credit line to buy more Russian weapons.

Venezuela is Russia's third-largest trade partner in Latin America. Trade more than doubled last year to \$1.2 billion on Russian arms sales.

Beyond energy and arms, the countries have also agreed to expand industrial and financial agreements.

Russian Deputy Prime Minister Igor Sechin visited Caracas on Nov. 6, signing agreements to establish direct airline service between two countries, build Russian cars in Venezuela, and form a \$4 billion bi-national bank.

Moscow-based United Co. Rusal, the world's biggest aluminum producer, has Russian government support in its attempt to build an aluminum mill in Venezuela. OAO AvtoVAZ, Russia's biggest carmaker, is in talks with the Venezuelan government to start building an assembly plant in the country next year.

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## 10. CHINA DOWNTURN DEEPENS

By Tomasz Janowski and Keith Weir  
Thu Nov 27, 2008 5:51am EST

SINGAPORE (Reuters) - China warned on Thursday its economic downturn was deepening with the spread of the global financial crisis and a senior European policymaker said woes could extend beyond 2009.

In India, emerging Asia's other economic titan, financial markets were closed after Islamist militants killed more than 100 people in the commercial capital Mumbai.

Violence in India and political unrest in Thailand highlighted political risk as an extra potential threat to emerging markets battered by the global crisis.

"These awful events are reinforcing the nervousness about emerging markets, which have been weak any way for some time after the U.S. slowdown and the domino effect," said Justin Urquhart Stewart, investment director at Seven Investment Management in London.

The economic warnings from China's top planner came a day after its central bank cut interest rates by the biggest margin in 11 years in response to the worst global downturn in decades.

A crisis that began last year with the collapse of the U.S. housing market has spread around the world, bringing several financial institutions to their knees and pushing the United States, Japan and Europe into recession or to the brink of it.

China's State Information Centre, a government think-tank, forecast annual growth would slow to 8 percent this quarter from 9 percent in the third quarter, a rapid cooling from double-digit rates recorded in the past five years.

"The global financial crisis has not bottomed out yet. The impact is spreading globally and deepening in China. Some domestic economic indicators point to an accelerated slowdown in November," Zhang Ping, chairman of the National Development and Reform Commission, told a news conference.

With factories closing by the thousands, Chinese officials have grown increasingly concerned in recent weeks that slowing growth may threaten the stability that the ruling Communist party craves for its 1.3 billion people.

Slowing demand for Chinese exports in the West is curbing growth and there is no relief in sight.

The euro zone is likely to be in recession next year, European Union Economic and Monetary Affairs Commissioner Joaquin Almunia said, reversing a forecast of slight growth made earlier this month.

Almunia would not give a specific forecast for 2009, but said next year may not mark the end of the euro zone's troubles. "The crisis may not end in 2009," he said.

Emphasizing the bleak outlook, the euro zone's business climate indicator fell to its lowest in more than 15 years in November, European Commission data showed.

## BANKING WOES

Aggressive interest rate cuts and trillions of dollars in financial sector bailouts and stimulus packages have been the order of the day since the collapse of Lehman Brothers in September, followed by a lending freeze and the spread of financial pain to consumers and businesses.

The world's banking system is still not strong enough to support the economy and avoid a recession, the head of Britain's financial regulator told an Italian newspaper in an interview.

Adair Turner, chairman of Britain's Financial Services Authority, added that the two key issues were bank capital strength and liquidity.

Japan's Norinchukin Bank said it would raise more than \$10.5 billion to shore up its capital, the largest fundraising by a Japanese financial firm since the start of the global credit crisis.

Norinchukin, the unlisted central bank for Japan's agricultural and fishery cooperatives, said it plans to raise more than 1 trillion yen (\$10.5 billion) through its associated cooperatives by the end of March.

## COMPANIES SUFFER

Battered global stocks rose to their highest level in nearly two weeks with European equities buoyed by sharp gains in Asia and the United States, dampening demand for safer assets such as government debt.

European government bond yields crept up as stocks gained ground, ending recent declines that mirrored steep falls in U.S. Treasury yields.

On Wednesday, the U.S. benchmark 10-year yield hit a 50-year low below 3.0 percent after a flood of bleak U.S. economic reports spurred demand for government debt. U.S. markets were closed on Thursday for the Thanksgiving Day holiday.

Despite the share price rises, there was little good news from companies.

Top global miner BHP Billiton cited a drop in China's demand for iron ore when it painted a gloomy outlook for its business and defended its decision to drop a \$66 billion bid for rival Rio Tinto.

ArcelorMittal, the world's largest steelmaker, said it was likely to start short-time working and cut production at its German steel plants in December.

Two of Britain's most high profile retailers DSG and Kingfisher underlined the severity of the economic slowdown with downbeat results and gloomy outlooks, while variety store group Woolworths went into administration.

Britain's retailers face a brutal downturn in consumer spending, amid sliding house prices and rising unemployment.

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## 11. CHINA MAY RELY ON IMPORTS FOR 38% OF NATURAL GAS NEEDS BY 2010

By Winnie Zhu

Nov. 27 (Bloomberg) -- China may need to rely on imports for 38 percent of its natural gas needs by 2010, the nation's second-largest oil producer said.

The world's second-largest energy-consuming country may use 120 billion cubic meters of the fuel a year by the end of the decade and its domestic production may reach 75 billion cubic meters by then, Xie Dan, vice general manager of China Petroleum & Chemical Corp.'s natural gas unit, said in the southern city of Xiamen today.

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## 12. FRESH DATA REINFORCE US ECONOMIC GLOOM

By Joanna Chung in Washington  
Financial Times  
November 26 2008 15:38

The severe impact of the credit crunch on US households and business investment was sharply illustrated on Wednesday with the latest wave of data showing collapses in new home sales, consumer spending and orders for durable goods in October.

Sales of newly built US single-family homes dropped last month to levels last seen more than 17 years ago, according to data from the US commerce department.

The annual sales pace of 433,000 was down 5.3 per cent in October, and lower than market expectations, from a revised 457,000 in September and was the weakest since January 1991. The median sales price of new homes fell to \$218,000 from \$221,700 the previous month and was the lowest since September 2004 when it was at \$211,600.

"Everything in the October new home sales report is bad: supply is up, while prices and sales drop further," said Dimitry Fleming of Global Economics.

Another set of figures showed a 1 per cent fall in personal consumption expenditures last month, the biggest drop in seven years, following a 0.3 per cent decrease in September.

Meanwhile, a higher-than-expected 6.2 per cent fall in orders for long-last manufactured goods, in a separate report, marks the biggest fall in two years and follows two consecutive monthly decreases, including a 0.2 per cent decrease in September.

Excluding volatile transportation orders, new orders were down 4.4 per cent while excluding defence, new orders fell 4.6 per cent, underlining how the manufacturing sector has been increasingly suffering from weakness at home and slowing growth abroad. Orders for nearly every category of durable goods declined.

The data reinforce the grim outlook for the US economy and comes just a day after other figures showed that it shrank at a faster rate than previously thought in the third quarter.

Paul Ashworth, senior US economist at Capital Economics, said the slump in new durable goods orders "suggests that business investment is in freefall."

"On a three-month-on-three-month annualised basis, the decline in core orders is already as bad as anything we saw during the last recession and the survey evidence suggests that rate of decline will only accelerate further."

Highlighting the extent to which US consumers are changing their spending patterns and making increased efforts to save more during the downturn, other figures showed that personal income rose by 0.3 per cent in October, following a 0.1 per cent rise in September.

Together the figures help explain the worst contraction in the US economy since the first quarter of 2001. Many economists now think the US is in recession.

Meanwhile, a labour department report on Wednesday showed that seasonally adjusted initial claims reached 529,000, a decrease of 14,000 from the previous week's revised figure of 543,000, but close to elevated levels.

On Tuesday, the Federal Reserve and the Treasury announced two new programmes specifically aimed at helping consumers. The Fed pledged up to \$800bn to bolster markets for loans to homebuyers, students, small businesses and other borrowers.

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### 13. OIL COMPANIES MAY CUT SPENDING TO PAY DIVIDENDS, BERNSTEIN SAYS

By Eduard Gismatullin

Nov. 26 (Bloomberg) -- ConocoPhillips, Marathon Oil Corp. and other oil companies may cut investment plans to maintain dividend payments, Sanford C. Bernstein & Co. said.

Royal Dutch Shell Plc, StatoilHydro ASA and other producers may postpone investment decisions in "marginal" projects such as North American tight, or hard-to-recover, gas and oil sands, and curtail an exploration and refining expansion, Neil McMahon, a London-based analyst at Bernstein, said in a report today.

"Staying free-cash flow positive next year could be a struggle if companies want to grow dividends," McMahon wrote. With oil staying at about \$50 a barrel "the industry is likely to see the first cuts in exploration" since 1999, he said.

Oil futures declined a record 33 percent in October on signs an economic recession in the U.S. and Europe is curbing fuel consumption. Crude fell about 64 percent after it touched record \$147.27 a barrel on July 11.

Possible investment cuts and startup delays may affect production capacity in 2013 to 2016, encouraging a new cycle of rising oil and gas prices as demand exceeds supply, McMahon said.

Companies may also increase borrowings next year or sell shares to finance their projects.

Woodside Petroleum Ltd., Australia's second-largest oil and gas producer, may sell stock to cover spending plans unless credit markets ease, JPMorgan Chase & Co. said. The company will probably need about \$2.5 billion in debt in 2009, more than the company's estimate of \$1 billion to \$1.5 billion, the bank said.

"With the economic outlook continuing to deteriorate, and the long end of the futures curve continuing to move lower, the market is likely to discount the possibility of lower oil prices for longer," Mark Bloomfield, a London-based analyst at Citigroup, Inc., said in a Nov. 21 report. "On this basis doubts over dividend sustainability seem highly likely."

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### 14. GM VIABILITY PROPOSAL LEAK: CEO LIKELY TO WORK FOR \$1 AND BRANDS LIKELY TO BE SHED

GM is working fervently on a "viability plan" which will be presented to Congress on December 2nd. If the plan is deemed capable of ensuring the company's future viability then a portion of \$25 billion in low interest bridge loans will be awarded.

GM is trying to keep their plan's development under tight wraps. When unveiled it is expected a 10 to 12 page public version will be presented along with an 80 page private version for lawmakers' eyes only.

Today reports citing anonymous sources have leaked out some aspects of the plan under consideration.

One component includes sacrifices from top executives who may even work for \$1 per year. As well concessions from the autoworker union (UAW) including the elimination of a controversial "job bank" program under which laid-off workers continue to get paid.

Other possibilities include the elimination of brands. Beyond publicly admitting Hummer is for sale, GM has not openly confirmed it might consider ending brands. Sources say that in addition to Hummer, GM is also considering terminating Pontiac, Saab, and Saturn.

Source (AP) and (Reuters)

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#### 15. U.S. SAYS 60 OF 3,800 GULF OIL, GAS PLATFORMS DESTROYED BY IKE

By Daniel Whitten

Nov. 26 (Bloomberg) -- The U.S. government said 60 of about 3,800 oil and natural-gas production platforms in the Gulf of Mexico were destroyed by hurricanes Gustav and Ike.

The platforms were capable of producing 13,657 barrels of oil and 96.5 million cubic feet of natural gas a day, the U.S. Minerals Management Service said in an e-mailed statement today. An additional 31 platforms damaged by the storms may take three to six months to repair, the agency said in its final planned assessment of the impact of the hurricanes.

The Minerals Management Service, part of the U.S. Interior Department, previously said 49 platforms were destroyed by the storms.

Rigs in the U.S. Gulf normally produce about 1.3 million barrels of oil a day and 7.4 billion cubic feet of gas.

Hurricane Ike made landfall on the Gulf Coast of Texas Sept. 13, less than two weeks after Hurricane Gustav struck the Louisiana coast.

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#### 16. RUSSIA'S COMEUPPANCE

Not long ago the balance of global power was shifting toward Russia. The economic crisis has put a stop to that.

Stephen Sestanovich  
Council on Foreign Relations  
Newsweek  
Nov 26, 2008

Any international economic crisis afflicts different countries in different ways, but an unfortunate few experience every painful dimension of it. In the current crisis, Russia is confronting virtually all the negatives at once--sharply declining export earnings from energy and metals, over-leveraged corporate balance sheets and a chorus of bailout appeals, a credit crunch and banking failures, a bursting real-estate bubble and mortgage defaults, accelerating capital flight, and unavoidable pressures for devaluation.

The Russian stock market is down 70 percent from late spring. The government has burned through more than 20 percent of its foreign-exchange reserves since August. The outflow of capital in October alone was \$50 billion. Next year's budget is based on a projected average price for oil of \$95 per barrel; now budget planners have to work with forecasts of \$50 or lower. Since Finance Minister Alexei Kudrin has said that Russian government spending goes into deficit at \$70 per barrel, pressures for spending cuts are starting to mount. Severe reductions have already been announced in housing and education programs.

Russians, it seems, at last have an answer to the question they have been asking since the economic collapse of 1998: Can anything approaching that crisis happen again? The vast hard-currency reserves they accumulated during years of high oil and gas prices (and thanks to conservative fiscal policies) make it hard to imagine that Moscow might default on its debts anytime soon. Yet the very fact that this crisis

has engulfed the country at a moment of high confidence in the future has made it in some respects even more shocking. Debate about how it is being handled, how far it will go, and what changes it will bring with it is becoming intense and much more open.

Russians remember, after all, that 1998 was not only an economic calamity but a political crisis--perhaps the low moment of the entire presidency of Boris Yeltsin. It toppled the government, ended the political careers of key liberal policymakers, and actually brought Communists back into the cabinet. It offered a hearing to protectionist demands for Russia to insulate itself against the fluctuations of the international economy. It revived talk of the need to hew to Russia's collectivist traditions, rather than to alien Western ideas about markets and the primacy of the individual.

In Russia's response to the crisis of 2008 there have been a few echoes of 1998, including a generous share of anti-Western rhetoric. President Dmitry Medvedev and others have repeatedly criticized the United States and called for a reduction in its global influence. There have also been hints of a further tightening of authoritarian rule. Many Russian commentators have interpreted Medvedev's proposal to lengthen the president's term of office as a sign that Prime Minister Vladimir Putin plans an early return to the Kremlin--perhaps to rule with heightened powers.

Yet, for all this, the most distinctive feature of the Russian leadership's overall response to the crisis has been its emphasis on the importance of further reform and on cooperation with other countries. There has been no repudiation of liberal policymakers, and few suggestions that Russia should pursue a "Third Way," much less wall itself off from the world economy. If there is one theme that unites Medvedev's many policy statements, it is that the restoration of state control of the economy must be avoided at all cost. "The government," says Arkady Dvorkovich, the president's chief economic adviser, "cannot replace the private sector, the market, and business, nor is it going to do so." For Medvedev, the state bureaucracy is already far too powerful and is guided by Soviet-era mistrust of "free people and free enterprise." The only way to stabilize the economy and sustain growth, he has repeatedly and publicly argued, is through transparency, competition, accountability, and protection of property rights. When Medvedev and others call for changes in international financial regulation, their message is that Russia should try to increase its influence in global processes, not withdraw from them, and abide by international norms, not talk idly of creating alternatives.

Many Russian commentators have said that if the goal is to keep a hard-hit Russian economy in the international mainstream, adjustments in Russian foreign policy are likely to follow as well. They do not predict a complete change of direction, but a less confrontational, less ideological, more prudent, more resource-constrained approach to relations with the West. The need for such adjustments is particularly obvious where resources are concerned. With housing, education, and infrastructure budgets under acute pressure, it is hard to imagine that military spending could be completely unaffected.

Military officials who were told by Putin in September that they would get a 50 percent funding increase over the next three years may well resist suggestions by President Medvedev that their budget is now on hold. Yet arguments about the urgent need for military modernization can hardly have the same force that they did earlier in the fall. Already the armed forces have had to accept a plan to cut the size of the officer corps by almost 60 percent in the next three years. The Russian government's desire to delay large increases in military spending surely also contributes to its apparent interest in a new round of arms-control agreements with the incoming U.S. administration.

Given the difficulties that have marked Russia's relations with the United States and Europe over the past few years, a desire to dial down tension--and spending--is understandable. But it does not exhaust the impact of the global economic crisis on Russian foreign policy. Russia's leaders have said repeatedly they see the crisis as part of a large shift in the international balance of power. The emerging economies, especially in Asia, will have to "assume the task to unravel the world economic crisis," Medvedev said in remarks published ahead of the late November 2008 summit of the Asia-Pacific Economic Cooperation forum in Peru. These economies will, he says, "become leaders in the post-crisis period." Russia wants to be on the winning side of this transformation.

It is one thing, of course, to want to be a member of the group of rising powers, and another to be treated like one. Russia has discovered that reaching agreement with China can be just as difficult as with the West. Russian businessmen and policymakers, hoping that access to Chinese capital could ease their

own economic problems, recently launched discussions with China for a \$25 billion loan to facilitate pipeline construction and enable Rosneft, the state oil company, to pay debts coming due this year. The talks were suspended when the Chinese raised what one Russian participant called "quite absurd lending conditions," including access to one of Russia's largest Far Eastern oil fields.

Unlike most other countries, Russia can always use its arms exports as a means of sweetening commercial deals. At a time when Russian economic needs are especially great, however, its customers are likely to press their advantage-seeking more advanced equipment than they have been offered in the recent past. China, whose own military purchases from Russia have slowed recently, is one Russian client likely to push for such upgrades. Iran and Venezuela are two others of special interest to the United States. It is widely thought that Russia, while steadily increasing its arms sales to Iran, has declined to sell Tehran its most advanced air-defense systems. A protracted economic crisis will surely inspire many inside the Russian defense industry--and probably within the government as well--to call for a review of this policy.

All of these strategic adjustments--in defense spending, arms control, pipeline construction, weapons exports--represent matters of high policy for Russia's leadership. Yet, all politics being local, some of the most consequential issues created by the economic crisis may prove to be those that would ordinarily be considered matters of low policy. When production falls and unemployment rises in Russia, many of the Gastarbeiter, or guest workers, that have been needed to fuel the boom are usually sent home. For countries of the Caucasus and Central Asia, which have provided most of this enormous transient labor force (some estimate more than one million workers in Moscow alone), this will be a huge jolt. Quickly, Russia will go from being an important safety valve for socioeconomic discontent to a source of it. In the short term, Russia's neighbors will doubtless see this reflux of their own citizens as a reason to maintain good relations with Moscow, in hopes of winning coordinated management of a potentially dangerous problem. In the longer term, however, they may consider it a measure of their continuing and unwelcome vulnerability to fluctuations in the Russian economy--and of the need to reduce that vulnerability if they can.

Before the current crisis hit, Russia's leaders believed rapid economic growth was shifting the global power balance in their favor. The crisis, they fear, may have an even more dramatic effect on the international pecking order--and deny them the ground they have gained in this decade.

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## 17. EAGC: CREDIT CRISIS TO AFFECT EUROPEAN GAS PROJECTS

Uchenna Izundu  
International Editor

LAKE COMO, ITALY, Nov. 25 -- Eni Gas & Power SPA Chief Operating Officer Domenico Dispenza warned in a keynote address at the European Autumn Gas Conference (EAGC) at Lake Como, Italy, that the credit crisis could seriously affect the supply and diversity of gas supply projects in Europe.

Dispenza said extreme volatility in stock and commodity prices were complicating the planning of major developments, and the drying up of financing has led to unprecedented government intervention in the market.

"The forecasting of the medium and long-term European gas demand will become a difficult exercise as the common wisdom of its unstoppable growth is being challenged by two full years of decrease—the combined effects of mild winters, marginal fuel competition, and efficiency measures," Dispenza said.

European gas companies have proposed a number of pipelines and LNG import terminals to bring in natural gas from Russia, Algeria, and Qatar to meet the growing deficit in gas supplies. But Dispenza stressed that infrastructure developments would be difficult without major finance and that strong upstream resources and a good project framework would be crucial going forward.

"The effect of the credit crunch on new capital-intensive export projects will be material for supply and diversity," he added.

He was critical of the "dangerous inward attitude" regarding development of the European single gas market and called for all actors to display similar attitudes to action investment. Otherwise, he warned, it would be difficult to encourage suppliers to establish multibillion-dollar export infrastructure.

"The priority of any new regulator and the third European liberalization package should therefore be on the promotion of a favorable investment climate and a finally stable regulatory framework," Dispenza said.

Of the EAGC delegates voting in a poll to identify the greatest concern for European Union (EU) marketers over the next year, 26.5% said it would be the threat of underinvestment as access to finance diminishes. Another 24% said legislative and regulatory uncertainty was the key challenge as the EU finalizes and implements its energy and climate change package.

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## 18. GAZPROM THREATENS UKRAINE WITH PRICE RISE

By Sophia Kishkovsky  
NY Times  
Wednesday, November 26, 2008

MOSCOW: Gazprom said Wednesday that if Ukraine did not pay a \$2.4 billion debt, the company might more than double the price of natural gas, a move that would deal a harsh blow to Ukraine's economy.

The Russian state-controlled natural gas monopoly said it would try to "avoid" cutting off supplies to Ukraine. Gazprom briefly cut off the flow of gas in 2006 in a dispute that disrupted supplies throughout Europe. Most of the gas Russia sends to Europe is piped through Ukraine.

"We will certainly try to take into account all the lessons of that situation and make every effort to avoid events developing according to this scenario," Sergei Kupriyanov, a Gazprom spokesman, told reporters during a conference call Wednesday.

Gazprom has said that an Oct. 2 memorandum signed by Prime Minister Yulia Tymoshenko of Ukraine and Prime Minister Vladimir Putin of Russia would lead to a long-term agreement on supplies and a transition to market prices over a three-year period, beginning Jan. 1, provided Ukraine pays its debt.

Ukraine now pays \$179.50 per 1,000 cubic meters, or 35,000 cubic feet, of gas. The market price would be more than \$400, Gazprom said.

Naftogaz, the Ukraine state energy company, estimates its debt at \$2 billion for the past three months of gas supplies. Oleg Dubina, chief executive of the company, said Wednesday that due to a spike in demand for dollars, Naftogaz was having some difficulty acquiring the currency necessary to make payment.

The \$2.4 billion Gazprom has demanded includes penalties for late payment.

During Wednesday's conference call, Kupriyanov of Gazprom reiterated that the debt must be paid in order for the agreement on a gradual transition to market prices to hold.

"If the transition to market prices is not gradual, but as of January 1 of next year, then based on current European prices for gas, the price for Ukraine might be more than \$400," said Kupriyanov, adding Ukraine had been warned about the situation last summer.

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## 19. IRAQ'S OIL: THE GREATEST PRIZE OF ALL?

Posted by [Big Gav](#)  
[TOD: Australia/New Zealand](#)

November 26, 2008 - 8:27pm

I am saddened that it is politically inconvenient to acknowledge what everyone knows: the Iraq war is largely about oil - [Alan Greenspan](#) (2007)

[The Guardian](#) had an interesting article recently on discussions about exploiting 40 billion barrels of Iraqi oil reserves.

The biggest ever sale of oil assets will take place today, when the Iraqi government puts 40bn barrels of recoverable reserves up for offer in London. BP, Shell and ExxonMobil are all expected to attend a meeting at the Park Lane Hotel in Mayfair with the Iraqi oil minister, Hussein al-Shahristani.

Access is being given to eight fields, representing about 40% of the Middle Eastern nation's reserves, at a time when the country remains under occupation by US and British forces. Two smaller agreements have already been signed with Shell and the China National Petroleum Corporation, but today's sale will ignite arguments over whether the overthrow of Saddam Hussein was a "war for oil" that is now to be consummated by western multinationals seizing control of strategic Iraqi reserves.

The subject of Iraqi oil is one which has fascinated me for a number of years, so in this post I'll outline why I believe that Iraq probably has the world's largest oil reserves - or, as [Daniel Yergin](#) once said of the middle east, it is "the greatest single prize in all history" (echoing a similar statement by [George Kennan](#) at the end of world war 2).

## **The Control Of Oil**

What people need to hear, loud and clear, is that we're running out of energy in America - [George W Bush](#) (2001)

A few years ago I came across a book from the 1970's about the oil industry called "[The Control Of Oil](#)". The book was written by John M Blair, an antitrust economist who worked for the Federal Trade Commission and the Senate Subcommittee on Antitrust and Monopoly, paying particular attention to the oil industry. The book draws on his experience and the hearings conducted by Senator Frank Church's Subcommittee on Multinational Corporations into the industry in the wake of the oil price shocks of the early 1970s.

A reviewer at [Amazon](#) did a good job of concisely summarising the book, in particular noting that there was no supply shock in the years that the price shock occurred:

"The Control of Oil," By Dr. John M. Blair is a brilliant look at how the price of crude oil was determined by giant petroleum companies (the seven sisters) and a dozen members of the Organization of Petroleum Exporting Countries (OPEC). Blair traces the history of these controls and explains how they recklessly triggered the 1970's global energy crisis.

This 1976 publication is a classic. To this end, Blair spent thirty-two years in the federal government. He started in 1938 as an author of monographs for pre-World War II investigations. Early on, he made his name focusing on the sizable concentrations of economic power in the oil industry by the Rockefeller family and family foundation.

Afterwards he spent nearly a decade with the Federal Trade Commission as an Assistant Chief Economist and finally Blair spent fourteen years as Chief Economist of the Senate Subcommittee on Antitrust and Monopoly. What makes this book truly special is the author's enormous access to critical government information.

Blair describes the oil industry's principal tax preferences, which worked to the advantage of the major companies and against smaller nonintegrated companies that could have favorably altered the availability and price of oil to consumers. The author also goes into great detail to reveal how the "Arab Embargo" that set the stage for the massive oil price explosion of October 1973 - January 1974 had little impact on supply and that in reality there was no crude oil shortfall. Ultimately, Blair emphasizes the need for developing alternate energy sources in the future.

The introductory section in the book includes an analysis of the lead up to the original Hubberts Peak (of US oil production) and presents a range of estimates for world ultimately recoverable oil reserves - all around the 2 trillion barrel mark still predicted by the ASPO. Unfortunately the author discounted the main oil peak (at that time predicted for around 2000) on the basis that, at the time, this was a full generation away, and that therefore the world will have moved onto a more sustainable and efficient energy model (he uses hydrogen as an example) and will have abandoned gas guzzling cars etc.

I had a good chuckle at that section.

The bulk of the book is divided into 3 parts - "The Control of Foreign Oil", "The Control of Domestic Oil" and "Erosion and Explosion".

The first part looks at the history of how the oil majors (known as "the seven sisters" at the time - Exxon, Mobil, SoCal, Texaco, Gulf, BP and Shell) manoeuvred to control the majority of the non-communist world's oil reserves, particularly in the middle east. In particular this involves examining the structure of the oil companies created in Iraq, Saudi Arabia, Kuwait and Iran, and the measures taken to ensure that the local governments followed the instructions of the oil companies, including the overthrow in the 1950's of Iran's democratically elected government of [Mohammed Mossadeq](#) when he tried to nationalise the oil industry.

Middle east oil was important to the oil majors in the days when there was far more supply available than required by the industrial economies of the time. The oil majors put in place a series of byzantine arrangements (such as the [Achnacarry agreement](#)) in order to restrict production and control the distribution ("marketing") of oil in order to maintain their desired profit margins and minimise the possibility of competition arising.

There is also a brief section on the attempt of the Italian state owned energy companies under Enrico Mattei to break the hold of the majors on oil refining and distribution in Italy. Mattei was successful for a while, but eventually he began expanding his enterprises outside and elsewhere in Europe and action was taken. Political pressure was applied to put a stop to this (with Exxon even donating money to the Italian Communist party - not a common move by American multinationals during the cold war - in order to get them to support moves against Mattei). Mattei eventually died in a mysterious plane crash, which put an end to the entire experiment.

The second section of the book looks at how oil production and distribution were controlled within the United States. The role of Rockefeller's "Standard Oil" monopoly is only briefly touched on, but the behaviour of the collection of oil companies that resulted from the breakup this organisation is examined at some length, along with the role of the [Texas Railroad Commission](#) in restricting production within the US (prorating), and the import controls put in place by the government to restrict imports of foreign oil. The astounding range of tax breaks and transfers of money from the US Treasury to the oil companies is also examined at some length.

Part 3 discusses the events in the years leading up to the oil price shocks of 1973 and 1974. The oil price shocks were enabled by a range of factors - the arrival of Hubbert's peak for US oil production, and what Blair calls "The Evisceration of the Libyan Independents" (where Colonel Gaddafi's coup somehow resulted in the independent oil producers operating in Libya, who had made major dents in both the oil price and the market share of the majors, suddenly being effectively wiped out) and "The Crippling of the Private Branders" which describes how the majors throttled the supply of oil to the independent petrol retailing chains and refineries in the US.

By the time 1973 arrived, the majors were in a position where they once again controlled the oil coming into the US and the retailing of petrol and other refined oil products. Towards the end of the year, the Arab oil "embargo" was put in place and the price of oil sky-rocketed - as did the profit margins of the oil majors. In spite of the widely held belief that this event restricted the flow of crude, in actual fact the total oil production for the year grew at the customary 10% over the previous year (oil production growth was carefully managed for many years to achieve approximately 10% growth in supply each year - which made for a very smooth "Hubbert curve" up to the mid-1970's) - the "embargo" was preceded by a rapid rise in production for the preceding 6 months.

Some examination of the winners and losers in the whole episode is made - with the oil majors and the OPEC governments coming out ahead the most, the US in general doing fairly well thanks to petro-dollar recycling, but the developing world getting financially wiped out (which much of it still hasn't recovered from).

## The History of Iraq's Oil

The Middle East with two thirds of the world's oil and the lowest cost, is still where the prize ultimately lies, even though companies are anxious for greater access there, progress continues to be slow - [Dick Cheney](#) (1999)

The discovery of oil in 1908 at Masjid-i Suleiman in Iran led to interest in the possibility of oil being found in the region now known as Iraq. In 1913 the British Navy sent an expeditionary team to the Persian Gulf to investigate oil possibilities in the region. Around the same time, Britain signed a secret agreement with the Sheikh of Kuwait who promised exclusive oil rights to the British (unknown to his Ottoman rulers). Kuwait became a British protectorate in November 1914, and southern Iraq around Basra was occupied shortly afterwards, with the rest of the region being seized from the Ottoman Empire during the course of World War 1 (and for a while afterwards - causing [some tension](#) with both the Turks and the French) .

A country-wide insurrection began in 1920, and the British spent the next 10 years fighting a "war of pacification" against the insurgents (some things [never change](#)) and making heavy use of the fledgling RAF to do so. TE Lawrence's dispatches from Iraq during this period make [interesting reading](#).

[Winston Churchill](#) is occasionally accused of using of gas against the Kurds in Iraq's north during this period, making him the role model for Saddam's later atrocities, though apparently he intended for tear gas rather than poison gas to be used, and it never actually eventuated (for that matter, Saddam also [disputed](#) that he was responsible for the Halabja massacre).

Britain granted independence to Iraq in 1932, leaving the country in the hands of a Sunni monarchy (though it maintained large permanent military bases in the country and maintained an indirect form of colonial control). During world war 2 the country was re-occupied as the British sought to protect the Iraqi oil fields free from German (and American) aspirations, with control being handed back to the monarchy after the war.

In 1958, the monarchy was overthrown by a nationalist military coup. After a period of instability, the Baath party seized power in 1968 and managed to consolidate control over the country, putting down a communist rebellion in the south and a Kurdish rebellion in the north. The 1972, Iraq nationalised its oil reserves and pushed the previous owners of the IPC out of the country.

Saddam Hussein formally assumed control in 1979, embarking on an 8 year war with Iran initially and shortly afterwards invading Kuwait (after accusing them of stealing Iraqi oil) and setting off the first Gulf War. A significant amount of Iraqi oil infrastructure was damaged during Saddam's wars, and the post-war sanctions restricted Iraqi oil production and exports. The second Gulf War and the insurgency that followed caused further damage.

Iraq [currently produces](#) around 2.2 million barrels of oil a day - 300,000 b/d less than its average before the US invasion in 2003. Iraq pumped as much as 3.7m b/d before the war with Iran in 1979.

The most interesting (and to this post, relevant) part of "The Control Of Oil" was on Iraq. [Iraq](#) was used as the "swing producer" in the middle east for a long period of time, with production throttled back and forth as demand required (Saudi Arabia and Iran were less amenable to this sort of manipulation).

The history of the [Iraq Petroleum Company](#) (IPC - a joint venture of BP, Shell and some of the american oil majors, along with "[Mr Five per Cent](#)", [Calouste Gulbenkian](#)) was examined in some detail, in particular the [suppression of oil discoveries](#) in Iraq in order to avoid the Iraqi government forcing the IPC to develop newly discovered oil fields. The chapter concerned can be found [here](#):

Although its original concession of March 14, 1925 covered all of Iraq, the Iraq Petroleum Co., under the ownership of BP (23.75%), Shell (23.75%), CFP (23.75%), Exxon (11.85%), Mobil (11.85%), and Gulbenkian (5.0%), limited its production to fields constituting only one-half of 1 percent of the country's total area. During the Great Depression, the world was awash with oil and greater output from Iraq would simply have driven the price down to even lower levels. Delaying tactics were employed not only in actual drilling and development, but also in conducting negotiations on such matters as pipeline rights-of-way. While such tactics ensured the limitation of supply, they were not without their dangers. If the Iraqi government learned that IPC was neither actively seeking new fields nor exploiting proved and productive areas, it might withdraw or narrow IPC's concession, or worse, award it to some independent willing and anxious to maximize production.

### Suppression of Discoveries

From almost the beginning of its operations IPC not only suppressed production in Iraq (as well as in nearby lands) but went to considerable lengths to conceal that fact from the Iraqi government.

Of the many concession areas exclusively preempted by IPC, none was rapidly developed. IPC had held the area east of the Tigris River in the Mosul and Baghdad vilayets since 1931, and by 1950 the only developed field was Kirkuk. Qatar is another illustration of "sitting on" a concession. Fearful that the area would fall to outside interests, Anglo-Iranian in 1932 obtained a two-year exclusive license for a geological examination of this peninsula. These exploration rights were expanded into a concession in 1935, and in 1936 were given to IPC under the terms of the Red Line Agreement. BP and Shell, however, were not anxious to develop more production in the Persian Gulf because of the effect this would have upon production in Iran. Although Mobil wanted more crude from the Persian Gulf, drilling did not start until three years and five months after the signing of the geological survey. A productive well was completed in 1939, and a few others were drilled after the war began; but in 1941, an official (Mr. Sellers) wrote: "... as there is excess of petroleum products available from AIOC and Cal-Tex in Persian Gulf, it is obvious productive wells in Qatar will not be expedited at present time." Commercial production in substantial quantities did not begin until 1950- eighteen years after the first exploration of the area. ...

World War II interrupted the operations of IPC in most of its concessions, and political disturbances handicapped its activities since that time. Yet even after allowing for these difficulties, in 1948 production in Iran was seven times larger than in Iraq, while in 1936 production in Iran was a little more than double that in Iraq. In Saudi Arabia commercial production did not begin until 1938, but by 1948 it was almost six times the production of Iraq.

The restrictive policies of the Iraq Petroleum Company during its early years have been summarized as follows:

Following the discovery of oil in Iraq in October, 1927, these three groups (BP, Shell, and Exxon-Mobil) employed a variety of methods to retard developments in Iraq and prolong the period before the entry of Iraq oil into world markets. Among the tactics used to retard the developments of Iraq oil were the requests for an extension of time in which to make the selection plots for IPC's exclusive exploitation, the delays in constructing a pipeline, the practice of preempting concessions for the sole purpose of preventing them from falling into other hands, the deliberate reductions in drilling and development work, and the drilling of shallow holes without any intention of finding oil.

Restrictive policies were continued even after a pipeline was completed, for in 1935, IPC's production was a shut back several hundred thousand tons. Moreover, for a time, a sales coordinating committee was established to work out a "common policy regarding the sale of Iraq oil." Again in 1938 and 1939, the Big Three opposed any "enlargement of the pipeline and the corresponding increase in production" on the ground that additional production would upset the world oil market. Although the Big Three eventually conceded to the demands of the French (CFP) for some expansion, no action was taken until after World War II.

While the restriction of Iraqi production during the 1930's had its roots in the generally depressed economic conditions of the time, the continued curtailment of Iraq's output after World War II stemmed from different causes. With the development of Saudi Arabia and Kuwait, the US firms- which owned 100 percent of the former and 50 percent of the latter- gained large-scale sources of supply that were far more

attractive to them than Iraq, where their ownership interest was only 23.75 percent. A later complication was the emergence of Libya as an important and largely uncontrollable source of Middle East countries. To the question of whether Libyan output could be accommodated within the limits of the overall growth rate Page answered, "Of course, with Iraq down." Indeed, keeping Iraq "down" was the only means by which the high growth rates of Iran and Saudi Arabia could be sustained in the face of Libya's expansion without creating a price-reducing surplus.

That the IPC continued its restrictive practices into recent years I corroborated by an excerpt from what Senator Muskie referred to as "this intelligence report," which he read into the record of the Senate Subcommittee on Multinational Corporations on March 28, 1974. According to the Senator, the report was "dated February 1967 and it has to do with this question of the potential in Iraq."

In 1966 a study was made of the geological, geographical and other petroleum exploration data of the areas of Iraq relinquished by IPC, Iraq Petroleum Co. The purpose of the study was to help government let new concessions and obtain more advantageous terms from foreign oil firms. The study indicated that the untapped reservoirs of oil in Iraq appear to be fantastic.

There is every evidence that millions of barrels of oil will be found in the new concessions. Some of those new vast oil reservoirs had been discovered previously by IPC but they were not exploited because of the distance to available transportations, the heavy expense of building new pipelines and the fact that IPC has had a surplus of oil in its fields that are already served by existing pipelines.

The files yielded proof that IPC had drilled and found wildcat wells that would have produced 50,000 barrels of oil per day. The firm plugged these wells and did not classify them at all because the availability of such information would have made the companies' bargaining positions with Iraq more troublesome. Many of these areas had been returned to the Government in settlement of the petroleum concession conflict between the Government and IPC.

### So How Much Oil Does Iraq Have ?

The ... difference between North Korea and Iraq is that we had virtually no economic options with Iraq because the country floats on a sea of oil - [Paul Wolfowitz](#) (2003)

Estimates of Iraqi oil reserves vary wildly, with the figures below showing the extent of the variation.

Source	Estimated Reserves (billion barrels)
<a href="#">Colin Campbell (ASPO)</a>	61
DOE / IEA	112
<a href="#">Oil and Gas Journal</a>	115
<a href="#">BP Statistical Review</a>	115
<a href="#">USGS</a>	145
<a href="#">Petroleum Economist Magazine</a>	200
<a href="#">Federation of American Scientists</a>	215
<a href="#">Council on Foreign Relations / James A. Baker III Institute</a>	300
<a href="#">Center for Global Energy Studies</a>	300
<a href="#">Taha Hmud Moussa (Saddam's deputy oil minister)</a>	300
<a href="#">Benito Livigni</a> (former manager of ENI and Gulf Oil Company)	400

On a more anecdotal note, one poster at [peakoil.com](#) referenced a comment about Iraqi reserves in the documentary, "[The Power Of Nightmares](#)".

I think it was a segment of the BBC's "The Power of Nightmares" in which the owner of a small British petroleum exploration and development firm spoke about Iraq's true reserve totals. He did not give a total estimate - because it's not known - only that there was an awful lot of oil in Iraq. He said it in such a way

as to be more than emphatic - talking about the amount of oil in Iraq in dreamy tones as if he were a conquistador talking about el Dorado.

He had completed making certain arrangements for the development of specific untapped fields with the Iraqi leadership when 911, and the subsequent invasion of Iraq spoiled his plans.

Gal Luft's survey for the Brookings Institution ("[How Much Oil Does Iraq Have?](#)") made the following notes about the uncertainty surrounding estimates.

Given Iraq's poor record of reporting on other issues of international concern, there is every reason to suspect that Saddam Hussein's regime was less than candid in its reports on oil reserve estimates—especially during the past 12 years, when Iraq's oil fields were inaccessible to reputable Western companies.

Even before the 1990-91 Gulf War, it was difficult to assess what still lay beneath the Iraqi sands. Most of the geological data about Iraq's reserves was gathered before the nationalization of the Iraq Petroleum Company in 1972. From then on, data on Iraq's oil reserves was closely guarded by Saddam's regime, which limited the ability of the international community to conduct an external audit. For the most part, Iraq's oil data has been marred with inconsistencies, gross approximations, and, at times, bold exaggerations. In 1987, for example, despite the fact that it was in the midst of war with Iran and its oil industry was mostly static, Iraq claimed to have more than doubled its reported reserves from 47 bbl to 100 bbl. The increase was a lie: it was just creative bookkeeping designed to increase Baghdad's OPEC quota rather than the result of new oil discoveries. Over the last six years, Iraq has claimed that its reserves have remained constant, despite the fact that it produced close to a billion barrels per year through the oil-for-food program and its various smuggling operations via Syria, Jordan, Turkey, and the Persian Gulf.

As for undiscovered reserves, external auditing is even more difficult and Iraq's claims are even more dubious. Issam al-Chalabi, Iraq's oil minister from 1987 to 1990, admitted in the March 24, 2003 issue of the OGJ that Iraq's oil figures are "preliminary in nature since work was often interrupted by political problems, and the technology used is now outdated." Large parts of the country, especially in Iraq's Western Desert and its northwest, are still untapped and need to be explored. This is where the DOE and USGS really part company. According to the DOE-EIA's Iraq web page, deep oil-bearing formations located in the vast Western Desert region could possibly yield as much as 100 bbl. This again contrasts with the detailed data of the USGS, which suggests only a 50 percent possibility of 6.6 bbl in Iraq's Western Desert petroleum system. Even under its most optimistic scenario, the USGS predicts no more than 14 bbl coming from this area.

However, there are some facts that are undisputed. First, Iraq has considerable oil reserves and low production costs. Second, because of Iraq's isolation over the last decade—during which exploration technology has greatly improved—there has been almost no use of the most sophisticated exploration techniques such as seismological surveys, magnetometers, and sniffers in Iraq. Furthermore, most of the fields have not been explored down to the deepest layers of the ground, where plenty of oil can be found. Out of the 74 fields that have been discovered and evaluated, only 15 are actually operating. In addition, there are 526 prospective drilling sites in Iraq today, but just 125 of them have actually been drilled. Of those, 90 have shown potential as oil fields, but only 30 have been even partially developed. This means that once on the ground with sophisticated exploration tools, petrogeologists could establish in relatively short time a far more accurate picture of the scope of Iraq's reserve than the one we have today.

The most recent assessment I've seen comes from [Barham Salih](#) (Iraq's Deputy Prime Minister) earlier this year, where he announced the country has the world's largest proven oil reserves, with "as much as 350 billion barrels".

As Luft noted, Iraq's oil production costs are among the lowest in the world ([estimated](#) to be around US\$1.50 per barrel), but only about 2,000 oil wells have been drilled in Iraq - compared with about 1 million wells in Texas alone, which underscores just how undeveloped the country is as an oil province.

One of the few [artifacts](#) that surfaced from the secretive "Energy Task Force" conducted by Dick Cheney in 2001 was a map of Iraq's oil, including a number of blocks in the [western desert](#) denoted "Earmarked for production sharing" along with a list of "Foreign Suitors for Iraqi Oilfield Contracts".



In David Strahan's book "[The Last Oil Shock](#)", he notes "the CIA was also well aware of Iraq's unique value, having secretly paid for new maps of its petroleum geology to be drawn as early as 1998".

### The Iraq Oil Law

One of our greatest helpers has been the State Department - [John D Rockefeller](#) (1909)

One of the more interesting pieces of political maneuvering in occupied Iraq has been the attempt to pass a law governing how Iraq's oil reserves and oil revenues will be divided and what role international oil companies will play in the country.

There have been persistent claims the law is [about to be passed](#) for well over a year, but so far the Iraqi Parliament has managed to avoid doing any such thing.

The proposed law has been the subject of a lot of controversy during that time (with the Bush administration making it one of the primary "[benchmarks](#)" it wants the Iraqi government to meet), with this summary of "key facts" from [Oil Change International](#) being a good outline of the major complaints:

The proposed Iraq hydrocarbon law would take the majority of Iraq's oil out of the exclusive hands of the Iraqi government and open it to international oil companies for a generation or more. The law is a dramatic break from the past. Foreign oil companies will have a stake in Iraq's vast oil wealth for the first time since 1972, when Iraq nationalized the oil industry.

BearingPoint, a Virginia based contractor is being paid \$240m for its work in Iraq, winning an initial contract from the US Agency for International Development (USAid) within weeks of the fall of Saddam Hussein in 2003. A BearingPoint employee, based in the US embassy in Baghdad, was hired to advise the Iraqi Ministry of Oil on drawing up a new hydrocarbon law. BearingPoint employees gave \$117,000 to the 2000 and 2004 Bush election campaigns, more than any other Iraq contractor.

The process of drafting the oil law has been particularly troubling. The timeline of which entities have seen the draft when suggests that Iraqi interests are not being considered first and foremost:

- \* Draft shown to US government and major oil companies – July 06
- \* Draft shown to the International Monetary Fund September 06
- \* Draft shown to Iraqi Parliament: February 07

The Iraq National Oil Company would have exclusive control of just 17 of Iraq's 80 known oil fields, leaving two-thirds of known — and all of its as yet undiscovered — reserves open to foreign control.

The law sets no minimum standard for the extent to which foreign companies would not have to invest their earnings in the Iraqi economy, partner with Iraqi companies, hire Iraqi workers or share new technologies.

The international oil companies could also be offered some of the most corporate-friendly contracts in the world, including what are called production sharing agreements. These agreements are the oil industry's preferred model, but are roundly rejected by all the top oil producing countries in the Middle East because they grant long-term contracts (20 to 30 years in the case of Iraq's draft law) and greater control, ownership and profits to the companies than other models. In fact, they are used for only approximately 12 percent of the world's oil.

Iraq's neighbors Iran, Kuwait and Saudi Arabia maintain nationalized oil systems and have outlawed foreign control over oil development. They all hire international oil companies as contractors to provide specific services as needed, for a limited duration, and without giving the foreign company any direct interest in the oil produced

Iraqis may very well choose to use the expertise and experience of international oil companies. They are most likely to do so in a manner that best serves their own needs if they are freed from the tremendous external pressure being exercised by the Bush administration, the oil corporations — and the presence of 140,000 members of the American military.

The leadership of Iraq's five trade union federations released a statement opposing the law and rejecting "the handing of control over oil to foreign companies, which would undermine the sovereignty of the state and the dignity of the Iraqi people." They ask for more time, less pressure and a chance at the democracy they have been promised.

When I first read about the proposed law, the point that instantly caught my eye was the handing over of all "undiscovered" oil to possible foreign exploitation - which makes a lot of sense if you consider Professor Blair's stories about suppressed oil discoveries back in the old days (along with large swathes of the country remaining unexplored).

Of course, the Iraqi government may have thwarted this particular tactic with its [announcement](#) this year upping reserves to 350 billion barrels, thus restricting the "undiscovered" category to any amount found beyond this number.

The Iraqi Deputy Prime Minister told The Times that new exploration showed that his country has the world's largest proven oil reserves, with as much as 350 billion barrels. The figure is triple the country's present proven reserves and exceeds that of Saudi Arabia's estimated 264 billion barrels of oil. Barham

Salih said that the new estimate had been based on recent geological surveys and seismic data compiled by "reputable, international oil companies . . . This is a serious figure from credible sources."

In the meantime the Iraqis are perhaps hoping they can dawdle over passing any law for as long as it takes for US troops to leave the country (a reversal of the "[iron butt strategy](#)") - something the Iraqis are asking to occur by [2011](#) (prompting some fairly [blunt threats](#) from the US military).

Various tactics have been tried by the oil companies as well, ranging from attempts to negotiate contracts directly with the [Kurdish regional government](#) in the north, to a range of no bid oil contracts (later [cancelled](#)) to the recent sell-off [discussions in London](#) that I started the post with (the outcome of which doesn't seem to have been reported anywhere that I can find, other than one Iraqi exile claiming the Guardian's reporter had [misinterpreted](#) what was going on).

Of course it's about oil, we can't really deny that - [General John Abizaid](#) (2007)

## Conclusion

As we frequently find elsewhere, there is very little in the way of transparent data regarding Iraq's oil reserves, so many interpretations of what is going on seem to be basically political in nature.

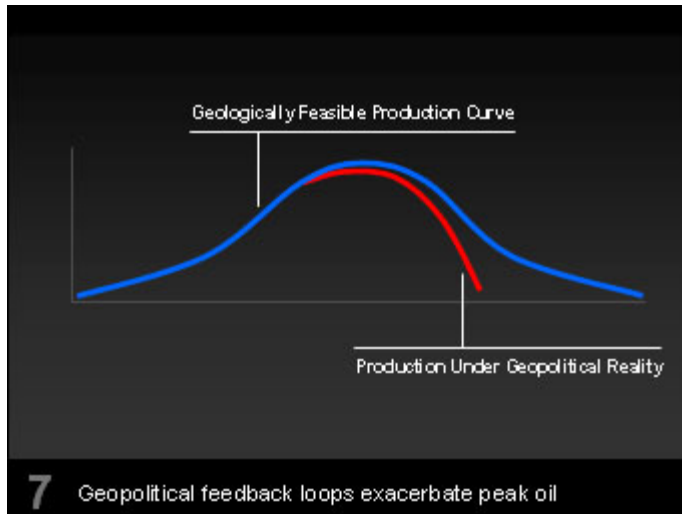
However, given the history of Iraq's oil industry and its largely undeveloped state (even when considering well known reserves), I think some of the higher estimates for Iraq's oil reserves are likely true. The oil that could be extracted will have much lower extraction costs, assuming the security situation can be fixed, than anywhere else - its entirely possible that if Iraq's oil industry had developed unhindered in the past, high cost oil developments like Canadian tar sands projects might still be in the planning stages, and only justifiable on energy security grounds.

The Iraq Oil Ministry is [continuing](#) trying to get the oil law passed, and predicting potential production in the 10 million barrel per day range (even the limited sell off supposedly under consideration could result in an increase in production to 4.5 million barrels per day, according to the [Wall Street Journal](#)).

It is numbers like these that make me think the global decline rates we will see post peak won't be as steep as some people fear in the medium term - however I hope that the Iraqis manage to free themselves from outside influences and get to determine the fate of their own property, rather than an occupying army ensuring that foreign oil firms take the lion's share of the income this oil generates.

As a final note, I'd point out that given that there is some uncertainty about how much oil really is there its best to apply the precautionary principle and assume we are approaching the peak oil point in the near future, and take steps to reduce our dependence on oil as quickly as possible. In addition, as long as the occupation continues the security situation is likely to remain unstable - an example of a [geopolitical feedback loop](#) in action that serves to keep actual production below theoretical limits.

On a related note, if Iraqi production capacity can be ramped up to the levels mentioned above the country will replace Saudi Arabia as the world's swing producer - giving the country (both the government and those groups able to disrupt production in similar fashion to the rebels operating in Nigeria) a large amount of influence over global oil prices.



People say we're not fighting for oil. Of course we are. They talk about America's national interest. What the hell do you think they're talking about? We're not there for figs - Republican [Senator Charles Hagel](#) (2007)

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## 20. IS \$70-\$80/BBL WTI A LONG-TERM OIL PRICE FLOOR?

PennEnergy  
Nov 26, 2008

Oil markets are on tenderhooks regarding an OPEC meeting in Cairo this week that will almost certainly raise the question of whether another production cut of 1–1.5 million b/d will halt the downward spiral of oil prices, especially coming ahead of the winter heating season. But even if that effort fails, and desperate times are ahead for the oil industry, they aren't likely to last long. The fundamentals of adding to oil supply militate against a protracted price slump even if economic recovery drags on.

That said, what is the built-in longer-term floor for oil prices? One analyst puts it at \$70–80/bbl and cites Canadian oil sands economics as the basis for that outlook. Raymond James & Associates contends that Canadian oil sands is one of only three non-OPEC areas with real long-term potential for supply growth (Brazil and the Caspian being the other two), and thus oil sands economics are relevant to long-term oil prices.

RJA estimates that an oil price of \$60/bbl delivers an internal rate of return (IRR) of oil sands development of only 7–8%. A price of \$50/bbl would have delivered that kind of IRR just 12-18 months ago, pointing to the rapid price escalation that has occurred in oil sands development.

The analyst pegs a "most likely" IRR of 10–11% for an integrated oil sands mining project and 12–13% for a SAG-D (steam-assisted gravity drainage) oil sands project. RJA reckons that an IRR of 8.5% equates to a long-term WTI price of \$70-80/bbl as the breakeven price for a greenfield oil sands project.

That may explain why Suncor, Petro-Canada, Nexen, and Shell have all announced delays in upcoming greenfield and expansion projects in the Canadian oil sands. Such delays will affect production rates over the next 3 or 4 years and exacerbate the future oil supply problem even more, RJA notes, adding, "...Over a 6–12-month timeframe and beyond, we think current prices are unsustainably low to encourage the necessary level of investment in new production."

With the same high costs hitting other major producing areas, says RJA, this supports the view of a built-in structural supply-demand imbalance that will sustain a trend of higher highs and higher lows in oil prices during the next 5 years.

"We believe that the increasing complexity and cost of bringing on incremental oil supply globally (in an effort to simply keep up with natural declines, not to mention grow production over time) will manifest itself as higher prices," the analyst says.

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## 21. GASOLINE'S CHEAP AGAIN, BUT PEAK OIL STILL LOOMS LARGE

Energy Tribune

Given the news from the past few months, it borders on the foolhardy to preach about the looming dangers of peak oil. Doing so seems a bit like warning about the possibility of drought while standing without an umbrella in the midst of a torrential downpour.

Indeed, the price of oil has plummeted from its July peak of \$145 per barrel (for West Texas Intermediate at Cushing, Oklahoma) to under \$80 by early October. The price collapse coincides with a big drop in oil demand. The Energy Information Administration now expects that U.S. consumption will fall by 4 percent this year. And credit-card issuer MasterCard estimates that gasoline demand during the first week in October fell by 9.5 percent compared to the year-earlier period. Indeed, it appears that the demand destruction associated with the rapid run-up in oil prices has for the moment obliterated all talk of oil going to \$200 in the next year or two, or three. Over the longer term, the key question appears obvious: will demand destruction take the "peak" out of peak oil? (I'll come back to that in a moment.)

The prospect of \$50 oil looms. OPEC is in disarray. The Saudis have made it clear that they will defend the price that suits them, not the prices that Hugo Chávez wants. After all, they are spending tens of billions of dollars to bring on new spare capacity while the Venezuelans have essentially decided to sit on their hands and plunder PDVSA for as much cash as they can. Further, according to the latest projections from the International Energy Agency, Saudi Arabia will add 1.78 million barrels per day of new capacity by 2013. The Saudis are eager to get a return on their multi-billion dollar investments in the fields at Shaybah, Nuayyim, and Khurais.

All of these factors have led to a stock price collapse for essentially all oil and natural gas companies. Between mid-September and early October, shares in Chesapeake Energy, one of the biggest U.S. independents, fell to less than \$17, from \$40. During that same time, Exxon Mobil fell to just over \$62, from \$75.

And yet – and yet – some of the best minds in the energy business insist that this latest bear market is only baiting the trap for a huge price run-up that will likely come around 2015. And – despite all of the current turmoil – they may end up being right.

Before going further, I readily admit that I have, for several years, had a rather flippant attitude toward peak oil. When asked my opinion, I would generally respond: so what? My rationale being, we will only know that we've hit peak oil when the event has actually passed. And second, regardless of prices or supplies, we will only move away from oil when something else comes along that is cheaper/cleaner/more convenient, or all of the above. Thus, I've long felt that all the fretting about peak oil has been largely misplaced and that even if the peak were imminent, there would be little that the U.S. or any other country could do to avoid the difficult energy transitions that are looming.

That said, I've spent a good bit of time over the past couple of months talking to two of the sharpest analysts in the oil business: Peter Wells and Charley Maxwell. And both are convinced that peak oil is real, it's coming, and the pain that will accompany its arrival will be severe.

Who are these guys? Wells has a Ph.D. in geology and three decades of experience in the global oil industry. He has worked extensively in the Middle East, Russia, West Africa, and Europe, and is an expert on the oil politics and geology of Iran and Iraq. He spent 12 years with Shell International, 4 with BP, and 6 with LASMO, the British oil and gas independent, where he led the company's business development efforts in the Mideast, including Iran. In 2001, he helped start Neflex, a British oil consulting firm. Since 2005, he has been a consultant to Toyota, developing world oil supply and price forecasting models. I have known Wells since 2005 and heard him speak several times. His presentation on

September 23 during a “sustainable mobility” seminar sponsored by Toyota in Portland, Oregon motivated me to write this piece.

Maxwell has been in the oil business for more than 50 years, beginning with a stint at Mobil Oil in 1957. In 1968 he began working as an energy securities analyst. Since 1999, he has been a senior energy analyst at Weeden & Co., a brokerage in Greenwich, Connecticut. Now 76 and showing no signs of slowing down, Maxwell has become one of the most quoted analysts in the business. In the September 8 issue of Barron’s, Maxwell predicted that due to ongoing demand growth, and lackluster supply additions that include the new Saudi fields at Khurais, Shaybah, and Nuayyim, the price of oil will reach about \$300 per barrel by 2015. I have heard Maxwell speak several times since 2002, and talked to him at length on September 25, when he summarized his view of the future by saying, “We have gone on an unsustainable energy course.”

Of course, there is a multitude of other analysts who’ve been studying peak oil and making dire predictions, including Colin Campbell and Kenneth Deffeyes.

What sets Wells apart from the pack of alarmists is that he has done the deep and dirty analysis of individual field production data. In fact, Wells utilized field output info supplied by Denver-based consulting firm I.H.S., which owns one of the world’s most extensive oilfield databases. This same field-by-field data was utilized in 2006 by an I.H.S. subsidiary, Cambridge Energy Research Associates (CERA), to come up with their study on future global oil production, which claimed that global output could reach an “undulating plateau” of 130 million barrels per day by 2030. The study concluded that the peak oil argument “is based on faulty analysis which could, if accepted, distort critical policy and investment decisions and cloud the debate over the energy future.” The study also claimed that the remaining global oil resource base is about 3.74 trillion barrels.

Wells took the same data and came up with a far different conclusion. He estimates that global liquids output will peak in about 2015 at no more than 100 million barrels per day. And that’s when things will get very interesting for automakers like Toyota and, of course, for the rest of us.

Wells’s work on peak oil began in 2003, which led him to publish a piece in the Oil and Gas Journal in 2004. Looking back at that initial work, Wells says that his prediction at the time was that the peak in global liquids output would likely come at a level of about 95 to 110 million barrels per day, somewhere between 2020 and 2035, “depending on OPEC reserves and OPEC’s willingness/ability to invest in new capacity.” When he began his consulting work for Toyota in 2005, Wells decided on a “bottom up” approach using the I.H.S. database and Neftekhim’s own data for the U.S. He then disaggregated all of the potential sources of oil – conventional crude, NGLs, tar sands, shale oil, biofuels, coal-to-liquids, etc. – so that he could look at their growth potential on a segment-by-segment basis. The I.H.S. data included field-by-field information as well as production information for the former Soviet Union, the U.S., all of the OPEC members, and all non-OPEC producers.

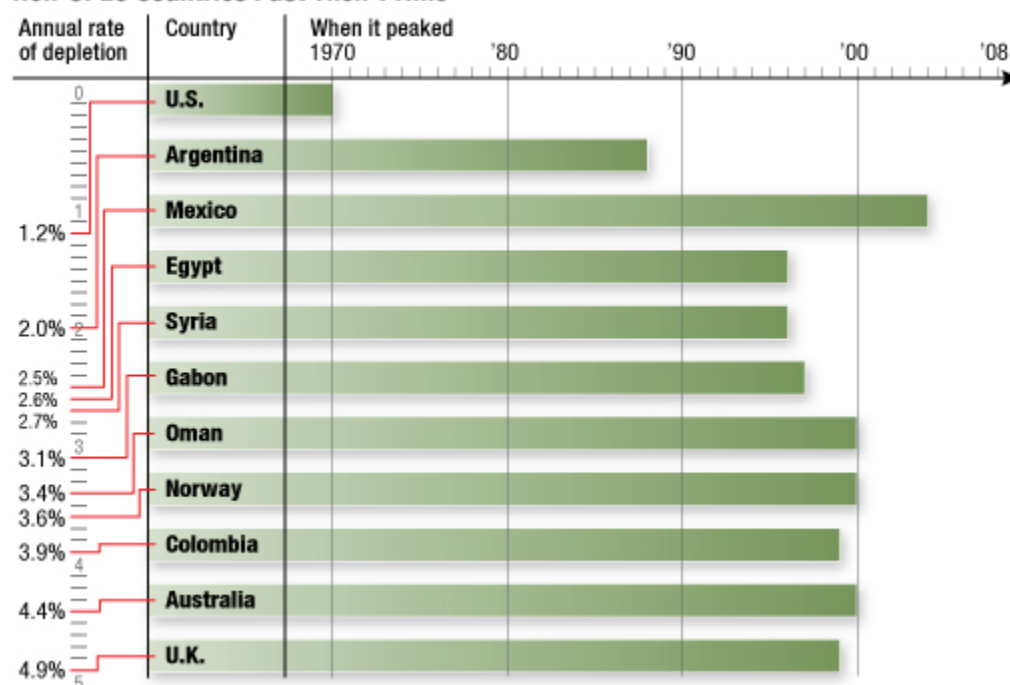
Among his most important conclusions is that non-OPEC production is peaking this year. That is in line with analyses done by the E.I.A. and by John S. Herold Inc., on the non-OPEC producers and the major international oil companies.



During his presentation in Portland, Wells said that the world is near the halfway point with regard to oil reserves. That is, we have produced about 1 trillion barrels of oil and there’s about 1 trillion barrels left to produce. But the problem is that new discoveries are not keeping pace with demand. “World peak exploration success was hit in 1960,” said Wells. Today, as countries like China, India and others grow their economies, demand is outstripping the oil industry’s ability to find new reserves to feed that demand.

And that can be seen by looking at spare capacity. In the mid-1980s, the world had a peak in spare capacity, with some 10 million barrels per day of excess production capability. Predictably, that spare capacity led to a price collapse that persisted until the first years of this century, a period during which, according to Wells, the floor price of oil was largely set by the spending needs of the Saudi government. Today, and for the foreseeable future, supply and demand will be in much tighter alignment, with Wells seeing excess capacity growing slightly this year and next to about 2 MMbbl/d.

### Non-OPEC Countries Past Their Prime



The tight spare capacity exacerbates several other factors. The peak in non-OPEC production means that future production must come from OPEC members. That's a problem. Saudi Arabia stands alone as the player with the resources, technical skill, and desire to increase production in a meaningful way in the near term. The other major OPEC members with big resources – Iran, Iraq, Venezuela, Kuwait, and Nigeria – all face political constraints that will limit their ability to add large increments of new production.

Of course, if those political constraints were removed, the issue of peak oil would probably be forgotten for another 20 years or so. Wells believes that Iraq could eventually produce 7 MMbbl/d, but that level won't be reached until at least 2020, due to the obvious obstacles: political wrangling, violence, and the lack of technically savvy personnel who can manage large new exploration and production projects. Iran, Venezuela, and Nigeria could likewise ramp up production, but all are beset by political regimes that have little interest (or ability) to dramatically increase output for the export market. Wells predicts that Iran may be able to increase its output to about 5.5 MMbbl/d, but not much beyond that.

There are other impediments that go beyond the OPEC/non-OPEC divide. And readers of ET will find them familiar: lack of manpower, increasing prices of steel, and increasing costs for fabrication, purchase, and maintenance of all types of oilfield machinery and installations. Of course, none of these factors will matter if oil demand continues to fall. That doesn't appear to be likely.

### Destruction Demand

History shows that sharp increases in oil prices are often followed by recessions. Those recessions typically lead to sharp decreases in oil demand and therefore, prices. The most obvious example of that slackening demand occurred after the sharp price increases of the late '70s and early '80s. Those prices reached about \$98 per barrel (in 2008 inflation-adjusted dollars) in January 1981. In 1978, U.S. oil consumption averaged 18.8 MMbbl/d. It stayed below that level until 1998, when it hit 18.9 MMbbl/d. That period of slack demand was accompanied by a sustained period of low prices. From the mid-'80s through

the early '00s, prices largely stayed under \$20 and even fell as low as \$9.39 per barrel (\$12.57 in 2008 dollars) in December 1998.

Today, we have similar slackening of demand due to higher prices. For instance, in July 2008, consumption was 19.4 MMBbl/d, substantially below the all-time high of 21.6 MMBbl/d in August 2005. Furthermore, U.S. oil demand has been falling nearly every month since December 2007.

So will demand destruction take the peak out of peak oil? While it's tempting to answer in the affirmative, several factors appear to show that it will not. Before going to those factors, let's look at the forces that could lead to slower demand growth. They include, most obviously, a sustained recession. If world economic growth stalls for a sustained time, oil demand will continue to be slack. Second, automakers are working hard on hybrid vehicles and electric cars that could slow gasoline demand. Third, new tougher efficiency standards for U.S. automakers, combined with ongoing additions of billions of gallons of corn ethanol into the gasoline pool, will likely further dampen U.S. gasoline demand. (Note, however, that decreasing gasoline demand will not necessarily mean lower overall oil consumption, as refiners will still have to refine crude in order to produce diesel, jet fuel, and other products.)

Even so, there are major differences between the current situation and the conditions that existed in the '80s and '90s. First and foremost is the paucity of spare production capacity to be had. Further, there are far fewer oil producers with big reserves remaining to be tapped. As shown in Table 2, 10 different oil-producing nations peaked between 1996 and 2004. Those producers will not be able to add significant amounts of new crude production to the global market.

Perhaps most crucially, in decades past China and India were largely still on the sidelines. That's no longer the case. According to an October 7 report from the E.I.A., China's August crude oil imports jumped by 12 percent, while its oil products imports increased by 32 percent, over the year-earlier period.

Of course, it's not just China. Other developing countries, like India, Vietnam, Malaysia, and Indonesia, are also rapidly increasing their energy consumption. And much of that is focused on transportation. In July, the I.E.A. estimated that the total number of motor vehicles could increase to as many as 1.2 billion by 2013, from the current 800 million. While a very small percentage will run on electricity, natural gas, or other alternatives, the overwhelming majority will be fueled by refined petroleum products.

Additionally, any future increases in OPEC output, particularly among the Persian Gulf members of the cartel, could be directed toward internal use. Energy demand in the Persian Gulf is soaring. According to the latest BP Statistical Review, in 2007, oil consumption in the Middle East grew at the same rate – 4.3 percent – as did demand in China. That increasing oil demand is a reflection, in part, of the region's growing electricity demand. In 2007, power generation jumped by 4.7 percent in the Middle East. For comparison, power use in North America grew by 2.4 percent. And as the Middle East continues to industrialize, it's reasonable to assume that its energy demand will continue rising apace.

In 2006, Dermot Gately, an economist at New York University, analyzed the energy consumption patterns within OPEC. Last year in *The Energy Journal*, Gately concluded that growing demand within OPEC members could mean that 40 percent to 50 percent of the cartel's total output could be consumed internally by 2030, thereby “constraining OPEC's ability to increase oil exports.” Gately wrote the rest of the world “should not rely upon OPEC's export-share of non-OPEC demand remaining constant. We might not even be able to count upon OPEC being able to maintain its level of oil exports.”

Data from Saudi Arabia, the world's biggest oil producer, backs up Gately's thinking. According to the E.I.A., Saudi oil production increased by 8.9 percent between 1997 and 2007, growing to 10.2 MMBbl/d from 9.4 MMBbl/d. But during that same time, internal consumption jumped by 67.3 percent, to 2.31 MMBbl/d from 1.38 MMBbl/d. The result: net Saudi oil exports during that decade fell, albeit slightly, about 80,000 bbl/d.

### **So what does all this mean?**

Perhaps the best single point was made by Maxwell, who said that peak oil will not be as damaging to the U.S. and other developed countries as it will to the less-developed world. Why? Because higher oil prices will mean “rationing by price.” That is, the wealthier countries and consumers will be more able to afford

motor fuel that costs \$5, \$10, or even \$15 per gallon. Consumers in poor countries will be unable to compete for fuel at those prices. And that could create serious social problems. Wells largely agrees with this outlook, saying, "Rising prices will drive demand destruction and the development of new technologies to make much better use of supply." He goes on, explaining in a recent e-mail, "This will be painful and potentially fatal in the really poor countries of the world where access to fuel for generators, fertilizers, transport, etc., will mean risk of famine/starvation/reduction of the capacity of nations to provide basic services."

Of course, consumers have long had rationing by price for other commodities, such as Rolex watches and Mercedes cars. But the rationing of a commodity that is so crucial to modern society could have dramatic negative effects on billions of people around the world. After all, some 2.5 billion still use biomass – dung, wood, straw, etc. – for their home cooking needs. If they are completely priced out of the market for hydrocarbons, they will be destined to continue living in dire poverty.

But Wells and Maxwell, and the many other analysts who have been predicting peak oil, could still be proven wrong. Given the cyclical nature of the commodities sector and the recent slump in oil prices, it is foolish to make huge bets on oil prices. Furthermore, as the ongoing financial crisis seems to prove, no one knows anything. Forecasts and models are handy, but markets – and of course, prices – are inherently chaotic. A prolonged recession or a depression could choke world oil demand to the point where a peak in production matters little. And of course, other technologies could come along that could allow significant substitution for oil.

But inventors and investors have been searching for an alternative to oil for decades, and they have yet to find anything that approaches the flexibility and versatility of crude. The sudden oil price drop may result in a corresponding investment decline in alternative energy technologies. The punch line seems obvious: consumers around the globe will be relying on oil for decades to come. The unanswerable question is equally obvious: how much will that oil cost in 2015, 2020, or 2030?

If Wells and Maxwell are right, and I'm increasingly inclined to believe that they are, the U.S. and the rest of the world would be well served if they began taking steps to ameliorate the potential disruptions that will come from the oil price shocks that are looming large on the horizon.

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## 22. NOW WE'RE COOKING WITH ... BATTERIES

Electric storage is the weak link in a high-tech world. Fixing it could improve our lives—and the planet.

Keith Naughton  
Newsweek  
Dec 1, 2008

The energizer bunny is nowhere to be found inside the suburban Milwaukee research lab run by Johnson Controls. But all around the facility, behind signs marked DANGER: HIGH VOLTAGE, blue-coated workers are torturing a new generation of batteries, testing whether they, like the fuzzy commercial icon, can keep going ... and going. In one building, this work is done inside hulking Thermotron machines, which look like extras from the movie "Monsters, Inc."

Nesting inside are lithium-ion batteries being repeatedly cooled to 40 below zero, heated to 185 above and run continuously to mimic 150,000 miles of driving in an electric car. Today most of this business's revenue comes from old-fashioned car batteries. But here in the research lab, there's an urgent focus on perfecting these next-generation models. "Up until now, this has been a science project," says Alex Molinaroli, the unit's president. "What's changed is, this is moving to a much larger strategic issue for our industry, for our country and for the planet."

It's a mission that's focused on the weak link in our high-tech world. Think about it: our laptops have never been faster, our cell phones never fancier, and plug-in electric cars are just around the corner. But batteries are not keeping up. Computer chips double in speed every two years—your current BlackBerry is as powerful as your desktop computer once was—but the batteries powering those devices are improving by only about 8 percent a year. "Everybody is screaming for more power," says Michael

Thackeray, a battery expert with Argonne National Laboratory. It's not just about gadgets. Many of today's big social imperatives—like reducing our dependence on foreign oil, or greening the electric grid with solar and wind power—depend on the humble battery, a device invented two centuries ago. And across the country, an industry is working to reinvent it.

For Steve Jobs, it can't happen too soon. In 2007 Jobs delayed the launch of the iPhone 3G because it was such a "power hog." When it finally arrived this summer, it was slimmer and faster than its predecessor. Still, talk time is three hours shorter because cruising the Web sucks so much juice. Customers are complaining. "I keep it plugged in all day at work, but I get home, send out a couple texts, use the Internet, take some pictures and it's dead," says Cincinnati office manager Sara Beiting. "I love having so much at my fingertips, but they've got to work on that battery." (An Apple spokeswoman says its battery life is competitive with that of similar devices and that consumer reaction to the phone has been overwhelmingly positive.)

The good news is complaints like that signal a big opportunity. The world's \$71 billion battery market, once an old-tech backwater, is becoming a hothouse for innovation. The flow of U.S. venture-capital dollars into battery development has grown from \$4.3 million in 2002 to more than \$200 million this year, according to Dow Jones VentureSource. Even major players like General Electric and ExxonMobil are investing in the battery business. The hybrid- and electric-car-battery market alone is on course to grow nearly fivefold by 2015, to \$3.7 billion, according to consultant Menahem Anderman. With billions pouring in, the industry now has the most attention it's seen in decades.

Batteries still won't evolve as quickly as computer-based technologies. The reason: a battery is based on a chemical reaction, which is limited by the laws of physics and the periodic table. Since Italy's Alessandro Volta first came up with the idea in 1800, batteries have generated electricity using the same basic principle. A controlled chemical reaction takes place inside a series of cells, each of which has a negative and positive electrode, divided by a separator soaked in conductive electrolyte. When the battery is hooked up, positively charged ions swim from the negative to the positive electrode, and then negatively charged electrons pass through an external circuit, creating electric current. In 1890, Thomas Edison reversed this process and created the first rechargeable nickel-based batteries. Since then, scientists have tinkered with the chemistry to amp up the energy, creating lead-acid to start cars, nickel-cadmium to fire up early laptops and nickel-metal-hydride to power the Prius and other hybrid cars.

Today's cutting-edge lithium-ion batteries first showed up on Sony's brick-size cell phones in 1991. Lithium, the lightest metal on the periodic table, packs a lot of energy into a lightweight battery, but it has its downsides. Price is one of them: lithium-ion batteries currently cost twice as much as nickel-metal-hydride, which is why GM says its plug-in Chevy Volt could cost nearly \$40,000 when it hits the streets in late 2010. Still, lithium-ion remains the hot new battery chemistry—maybe too hot. By generating so much voltage in a small space, lithium-ion's chemical reaction can overheat and create what the engineers call "thermal runaway"—a phenomenon consumers call a "small explosion."

The safety issues first gained notice two years ago, when laptops from Dell and other brands began catching fire. Thomas Forqueran, a gold miner in Kingman, Ariz., watched his laptop combust inside his pickup truck, igniting the truck's gas tank and the shotgun shells in his glove box. "We saw flames 5, 6, 10 feet shooting out of the passenger window," says Forqueran. Those safety problems led to recalls, so researchers are proceeding gingerly before installing next-gen batteries in devices we keep in our garages and pockets. "A couple bad accidents could give [new batteries] a black eye very easily," says J. B. Straubel, technology chief at Tesla, the electric-car company.

For a look into what the battery-powered future might hold, however, the Johnson Controls research lab is a good place to start. The company's lithium-ion production line is sealed off in a climate controlled "dry room." While technicians mix a slurry of chemicals that are applied to thin sheets of copper and rolled through a drying oven, a computer monitors the room's humidity and dew point. Moisture is a big problem in battery making—it can contaminate the chemicals and increase risks of a thermal runaway. No more than eight workers are allowed in the room at a time, says battery engineer Jim Symanski, because too much exhaled water vapor could harm these newborn batteries.

At Johnson, much of the excitement revolves around the promise of how better batteries could fuel a new generation of cleaner cars, which could help reduce America's dependence on foreign oil. In a garage off

the back of the lab, senior VP Mary Ann Wright keeps a Ford Escape Hybrid, which she engineered while working at Ford. When she arrived at Johnson Controls, she and some co-workers replaced its nickel-metal-hydride batteries with lithium-ion. The old batteries weighed 192 pounds versus 130 pounds for the new ones, which yield more power. The result: her jury-rigged Escape gets off-the-charts mileage. Prius owners who've done plug in lithium-ion conversions say they get 80mpg, and some analysts believe GM's Volt could break 100mpg.

There's groundbreaking research happening inside other U.S. companies as well. In Watertown, Mass., A123Systems has received \$148 million in venture funding to create advanced batteries. It already makes rechargeable batteries for Black & Decker tools and is in the running to power GM's Volt. EnerDel, an Indianapolis startup, is supplying batteries to Think electric cars in Europe. The government plays a role too: both Argonne and Oak Ridge national laboratories have teams working on advanced batteries. Researchers are coming up with new chemistries and employing nanotechnology to make lithium-ion safer and more reliable. A123's battery, for example, employs nanophosphate technology that helps prevent thermal runaway and improve battery life. The trade-off: many of these alternative chemistries also lower the battery's voltage.

Despite their work, the U.S. battery makers don't stack up well globally. U.S. automakers' enthusiasm for electric vehicles died a decade ago, when GM's allelectric EV1 proved to be a flop. Since then Toyota and Honda have come to dominate the hybrid-car market, which is why Asia leads the world in advanced-battery production, for both cars and gadgets. "The U.S. missed out on a great deal of the advanced-battery business over the last 10 years," says A123's CEO, Dave Vieau. "The next 10 years will see a significant increase in battery use, and it would be a mistake for us not to participate in that." While U.S. battery makers play catch-up, the Japanese battery industry is consolidating: Panasonic, Toyota's battery supplier, is in talks to acquire Sanyo, Honda's battery maker. South Korea has also demonstrated battery savvy, as does China, where the iPhone batteries are assembled. For some observers, this is a cause for concern. "Are we trading our dependence on foreign oil for a dependence on batteries built in foreign countries?" asks Chrysler vice chairman Jim Press.

It's an issue that goes beyond cars and mobile devices. To reduce carbon emissions, utilities are likely to shift more generating capacity from coal and natural gas to renewable sources like wind and solar. Solar cells and wind turbines require batteries because they provide power intermittently. The wind, for example, blows hardest at night when our energy needs are low, so storing that energy is essential to what utility companies call "load leveling."

To store energy generated by giant solar and wind installations, some utilities are experimenting with sodium-sulfur batteries that are the size of tractor-trailers. As more homeowners put solar panels on the roof and wind turbines in the backyard, utilities are trying to scale down these superbatteries; right now, however, it would require a battery the size of a nice bathroom to take your home "off the grid" with wind and solar power. Researchers are looking into thin-film batteries, but they're costly and hard to mass-produce.

Optimists are confident that those challenges can be overcome. They envision a day when your electric car helps store the power generated by your rooftop solar panels, with many homeowners selling homegrown electricity back to the utility companies over the grid. This vision of energy nirvana sounds great to Molinaroli, who runs Johnson Controls' battery business, but you'll excuse him if he's a bit jaded. "If you went behind the curtain at our tech center, you could probably find electric-vehicle projects from 10 years ago, 20 years ago, 30 years ago," he says. "There's a lot of skepticism." But this time, with billions riding on battery breakthroughs, there's hope the electric economy might finally come to light.

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