



Peak Oil News

A Compilation of New Developments, Analysis, and Web Postings

[Tom Whipple](#), Editor

Saturday, November 29, 2008

Current Developments

[1. OIL ENDS WEEK ON A FLAT NOTE AS OPEC GATHERS](#)

John Porretto,
AP Energy Writer
Fri Nov 28, 5:36 pm ET

HOUSTON – Oil prices ended flat Friday with OPEC officials sending mixed messages about a production cut before a regularly scheduled meeting in December. Meanwhile, gasoline prices continued their free fall and are now at levels not seen since Jan. 21, 2005 — good news for travelers heading home after Thanksgiving getaways. Pump prices fell a penny overnight to a national average of \$1.835 for regular unleaded, according to auto club AAA, the Oil Price Information Service and Wright Express. The average national price has fallen 75 cents in the past month alone and is down 41 percent from the \$3.09 retailers were getting on average a year ago. After tumbling earlier in the day during an abbreviated session on the New York Mercantile Exchange, light, sweet crude for January delivery settled down a penny at \$54.43. Yet for most of the day, trading at Nymex was as volatile as it had been for the entire week, save for Thursday when the market was closed for the Thanksgiving holiday.

[2. OPEC TO DELAY PRODUCTION DECISION TO NEXT MONTH](#)

By Maher Chmaytelli and Ayesha Daya

Nov. 29 (Bloomberg) -- OPEC members, who agree oil supply is exceeding demand, will delay a decision on whether to cut production again until next month, giving them time to assess previous attempts to halt a plunge in prices. Today's meeting in Cairo will prepare the ground for the Dec. 17 summit in Oran, Algeria, according to Ali al-Naimi, oil minister of Saudi Arabia, the world's largest exporter and de facto OPEC leader. "We will decide on a firm measure when we meet in Oran." Asked if the producer group would seek to lower output then, he replied: "A cut is possible, we will have to see." Crude oil prices have slumped 62 percent from July's record of \$147.27 a barrel as the global recession cuts fuel demand. Prices continued to slide even after the Organization of Petroleum Exporting Countries, the producer of more than 40 percent of the world's oil, decided to reduce production quotas by 1.5 million barrels a day on Oct. 24.

[3. SAUDI HINTS OPEC TO DELAY FURTHER CUT](#)

By Carola Hoyos in Cairo
Financial Times
November 29 2008 10:27

Saudi Arabia early Saturday indicated the Opec oil cartel would delay a further round of output cuts until December. Ali Naimi, Saudi Arabia's energy minister and Opec's most influential member, said the group was preparing the foundation for a new round of cuts at its December 17 meeting in Algeria, making it unlikely the group would act on Saturday. Mr Naimi said as he walked into the meeting of the Arab oil producers held in Cairo: "This meeting is a preparatory meeting for a more resolved and firm decision in Algeria." Mr Naimi's statement means all the major producers of Opec have now voiced their willingness to delay a new round of production cuts until their meeting in Oran, Algeria. Over the past three months, Opec has already agreed to cut 2m barrels a day of its production and analysts said the group was more than half way there.

4. SAUDI TARGETS RETURN TO \$75 OIL PRICE

By Rania El Gamal and Alex Lawler
Sat Nov 29, 2008 4:39am EST

CAIRO (Reuters) - Saudi Arabia on Saturday identified \$75 a barrel as a fair price for oil, the first time in years the world's leading crude exporter has cited a price target. Saudi Oil Minister Ali al-Naimi said oil prices needed to return to \$75 to keep the more expensive new projects at the margins of world supply on track. "There is a good logic for \$75 a barrel," said Naimi. "You know why? Because I believe \$75 is the price for the marginal producer. If the world needs supply from all sources, we need to protect the price for them. I think \$75 is a fair price." Naimi was speaking ahead of an OPEC meeting at 3 p.m. in Cairo to review progress on cartel output restraints agreed in the past two months that aim to remove 7 percent of its supply from the world market. Ministers said they were likely to defer a further production cut until their meeting next month.

5. IRAQ SAYS KURDISH CONTRACTS NOT LEGAL

Fri Nov 28, 2008 3:45pm EST

CAIRO, Nov 28 (Reuters) - Oil contracts signed by the Kurdish regional government (KRG) with foreign oil companies are not recognised by central government in Baghdad, Iraqi Oil Minister Hussain Shahrستاني said on Friday. The comments come despite an initial agreement on Thursday between the central Iraqi oil ministry and the largely autonomous Kurdish authorities to allow exports from Kurdistan to Turkey. Norwegian oil company DNO (DNO.OL: Quote, Profile, Research, Stock Buzz) has a concession with the KRG from which it hopes to start exports of 100,000 barrels daily in the first quarter of next year. But Shahrستاني said the revenues from oil produced anywhere in Iraq belonged to central government for redistribution around the country. "Those contracts have not been reviewed by the ministry of oil and have not been recognised by the federal government," he told reporters in Cairo.

6. NIGERIA PUMPING 2.14 MILLION B/D, SHUT-INS AT 1.2 MIL B/D: NNPC

Cairo (Platts)—28 Nov 2008

Nigeria's crude production has slumped to 2.14 million b/d after pipeline sabotage in recent weeks, even further below the volume the country was producing before years of militant attacks on its oil infrastructure, a senior Nigerian oil official said Friday. The head of crude marketing at state oil company NNPC, Aminu Baba-Kusa, said that around 1.2 million b/d of the country's crude production was currently shut in. The festering Niger Delta crisis now accounts for 80% of the shut-ins in crude production. Baba-Kusa said 127,000 b/d of Chevron-operated Escravos production remained shut in, with production hovering at around 220,000 b/d. The US major November 20 said it would not be able to meet its delivery obligations on exports from the Escravos oil terminal until the end of the year after militants attacked a pipeline feeding the Warri and Kaduna refineries.

7. OUTPUT FALL STOKES JAPAN'S DEFLATION FEARS

By Michiyo Nakamoto in Tokyo
November 28 2008 16:01

Japan's industrial production and household spending fell more than expected in October, raising the spectre of a prolonged recession and triggering concern that the world's second largest economy could slip back into deflation. Industrial production declined 3.1 per cent month-on-month in October and 7.1 per cent year-on-year. Friday's official figures reflected a sharp cutback in reaction to declining demand for Japanese exports. In a sign that the situation was likely to get worse, companies told the Ministry of Economy, Trade and Industry they would reduce production by 6.4 per cent this month, the worst reading since the agency began its survey 35 years ago. They indicated they will make a further 2.9 per cent cut in December. Analysts expressed surprise at the speed of the fall in production. "It's absolutely unprecedented," for production to show a 12 per cent drop from September to December, said Richard Jerram, chief economist at Macquarie in Tokyo. "That basically tells you that export demand has collapsed," he said.

8. GM SUSPENDS \$445-MILLION THAI DIESEL PROJECT: REPORT

Sat Nov 29, 2008 2:50am EST

BANGKOK (Reuters) - Troubled carmaker General Motors Corp (GM.N: Quote, Profile, Research, Stock Buzz) has suspended construction of its \$445-million diesel-engine facility in Thailand due to the global financial crisis, the Nation newspaper reported on Saturday. Work on the site in Rayong, 150 kms (90 miles) southeast of Bangkok, was put on hold for one year, said Steve Carlisle, president of General Motors in Southeast Asia. "The availability of cash is one of the problems for GM globally, and this is one of the reasons we have put on hold work at the site. Hopefully we will restart work within one year," Carlisle was quoted as saying. A GM spokesman was not immediately available for comment. The facility would produce engines for Chevrolet models for sale in Thailand and other markets, part of GM's strategy to offset falling U.S. auto sales, the newspaper said. Earlier this month, GM said it would shut its Rayong plant for two months from mid-December due to falling demand caused by the global economic slowdown.

9. GAS PRICES: LOWEST SINCE 2005

Price at the pump slips for the 72nd day in a row to \$1.835 a gallon, according to AAA.

By Kenneth Musante
CNRMoney.com staff writer
November 28, 2008: 10:21 AM ET

NEW YORK (CNRMoney.com) -- Gas prices fell to their lowest level since 2005, coming within 4 cents of \$1.80 a gallon, according to a daily survey of gas station credit card swipes by motorist group AAA. Gas prices slipped 1.1 cents to a national average of \$1.835 a gallon, according to Friday's survey. Prices have fallen by more than 55% since hitting a record high of \$4.114 a gallon in mid-July as the price of crude oil, gasoline's main ingredient, has plummeted. Concern about falling fuel consumption in the midst of the current economic crisis has propelled oil prices down more than 60% since July. Typically, energy expenditures are the first to be trimmed back during periods of economic sluggishness as business activity declines and consumers try to save money by driving less, say economists.

10. CONGRESS SHOULD REINSTATE THE OIL SHALE MORATORIUM

By Craig Thompson
Friday, November 28, 2008

In a blind rush to promote oil shale development, the Bureau of Land Management released rules Nov. 17 governing commercial oil shale operations on public lands and royalties the companies must pay for producing oil from shale. Not surprisingly, oil shale royalties are a fraction of those charged for other public-land energy resources. Why do we have to sweeten the deal when the potential energy reserve from Rocky Mountain oil shale is both enormous and seductive? Western Colorado knows all too well that past attempts to subsidize the industry have not worked. Why? To begin with it is neither oil nor shale. The energy source is kerogen with a low heat content ? about 10 percent of crude oil ? a lower heat content than municipal garbage and half the heat content of prunes.

11. U.S. MOVES AHEAD ON OIL, GAS LEASES ON PUBLIC LAND

Decision Could Pose Problem for Obama

By Juliet Eilperin
Washington Post Staff Writer
Saturday, November 29, 2008; A01

A decision by federal officials this week to press ahead with a controversial sale of oil and gas leases in eastern Utah is stoking the debate over how to balance the nation's needs for fossil fuels against concerns over the environmental impact on iconic national parks and other sensitive areas. The Bush administration, which has sought to reduce American dependence on imports to meet the continuing demand for oil and gas, has aggressively pushed to open up energy exploration across broad swaths of

the West, off both coasts, and in Alaska. But those initiatives regularly stir opposition from both environmentalists and advocates of faster development of alternative energy sources such as wind and solar power. Over the last four fiscal years, a [Washington Post](#) analysis of [Bureau of Land Management](#) records shows, the government has dramatically accelerated the pace of awarding oil and gas drilling permits on federal land. The total for the period is nearly triple the number issued in the corresponding years under former [President Clinton](#), and the number of new wells sunk on federal land is more than double Clinton's record over the comparable period.

12. GM SOLICITS DEBTHOLDERS IN ITS EFFORT TO REVAMP

By John D. Stoll And Monica Langley
WSJ
November 28, 2008, 11:48 P.M. Et

General Motors Corp. is trying to lure some of its debtholders into exchanging debt for equity, as it tries to steer clear of a Chapter 11 bankruptcy-law filing, people familiar with the plan said. Chief Executive Rick Wagoner and top lieutenants are scrambling to assemble the business plan they need to deliver to Congress by Tuesday. The plan needs to prove the car maker can remain a viable company amid bleak market conditions. GM will argue that with a short-term loan from the government, along with agreements with creditors and unions, it can reshape itself into a leaner entity. That plan, yet to be approved by GM's board, is expected to include details on how GM will lighten its debt obligations without the protection of bankruptcy court, these people said. GM's board, set to meet this weekend, is expected to scrutinize the plan and play a role in crafting whatever document is submitted to Congress. A bankruptcy filing could cost Mr. Wagoner his job.

13. AUTO SLUMP SEEN ROLLING THROUGH NOVEMBER

By Soyounng Kim and David Bailey
Fri Nov 28, 2008 1:26pm EST

DETROIT (Reuters) - Undercut by tight credit and a weak economy, November U.S. auto sales are expected to have dropped by some 30 percent from a year earlier, extending a year-long downturn that has pushed Detroit-based automakers to the brink of failure. U.S. automakers, struggling to conserve cash as they battle for survival, are poised to report sales declines of about 35 percent. Japanese automakers such as Toyota Motor Corp (7203.T: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) are also certain to have been hit by collapsing demand in the world's biggest vehicle market. November sales are due for release on Tuesday, the deadline for U.S. automakers to submit turnaround plans requested by Congress for considering \$25 billion in government loans for the cash-strapped industry. General Motors Corp (GM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Chrysler LLC CBS.UL have both warned it would be difficult to survive without urgent government funding. Honda Motor Co (7267.T: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) Executive Vice President Koichi Kondo said U.S. auto demand looked "bad" again in November, adding Honda's sales decline would be only slightly narrower than the 28 percent drop posted in October.

14. UKRAINE, SEEKING RUSSIAN DEAL, VOWS TO ENSURE EUROPE GAS SUPPLY

By Halia Pavliva and Daryna Krasnolutska

Nov. 28 (Bloomberg) -- Ukrainian President Viktor Yushchenko urged the government to resolve a dispute with Russia on an agreement for natural-gas supplies, vowing that his country will maintain uninterrupted shipments to Europe. Ukraine guarantees the stable transit of gas to Europe regardless of how its relationship with Russian exporter OAO Gazprom develops, Bohdan Sokolovskyi, an aide to Yushchenko, said today in an e-mailed statement. Gazprom reduced supplies to Ukraine in March over an unsettled debt, while it cut deliveries for more than two days in January 2006 amid a pricing dispute, leading to delivery shortfalls in Europe. The president urged Prime Minister Yulia Timoshenko's government to reach an agreement on 2009 supplies by Jan. 1 and reassured consumers abroad, Sokolovskyi said. "Ukraine is able to fulfill its obligations on gas supply to foreign markets as well as on the domestic market," he said.

Discussion and Analysis

15. GENERAL JONES AND THE CHAMBER OF COMMERCE ENERGY PLAN

Posted by Heading Out
The Oil Drum
November 28, 2008 - 9:23am

Well they say that “the Times they are a changin’ ” and with the impending change in the Administration and its approach to energy , and the change in the leadership of the Energy and Commerce Committee in the House, I suspect that change is what we are going to get. One indicator of a possible path forward comes from the U. S. Chamber of Commerce, where General James Jones, anticipated to be the next National Security Advisor, has been heading a panel that has just issued A Transition Plan for Securing America’s Energy Future.

The thirteen pillars are:

1. Aggressively Promote Energy Efficiency
2. Reduce the Environmental Impact of Energy Consumption and Production
3. Invest in Climate Science to Guide Energy, Economic and Environmental Policy
4. Significantly Increase Research, Development Demonstration and Deployment of Advanced Clean Energy Technologies
5. Significantly Expand Domestic Oil and Gas Exploration and Production
6. Commit to and Expand Nuclear Energy Use
7. Commit to the Use of Clean Coal
8. Increase Renewable Sources of Energy
9. Transform our Transportation Sector
10. Modernize and Protect U.S. Energy Infrastructure
11. Address Critical Shortages of Qualified Energy Professionals
12. Reduce Overly Burdensome Regulations and Opportunities for Frivolous Legislation
13. Demonstrate Global Leadership on Energy Security and Climate Change.

16. CHEAP GAS STALLS GREEN EFFORTS

Tom LoBianco
Washington Times
Friday, November 28, 2008

Advocates of energy conservation and renewable fuels may be the only ones in America looking back nostalgically on the days of \$4-a-gallon gasoline. The political will to reform energy policy and the public's demand for alternative fuels and more efficient cars appear likely to fall off as rapidly as the price of a gallon of gas, posing a new dilemma for champions of green energy and conservation. Environmental advocates, and a few conservative thinkers, have begun talking about the need for a variable gasoline tax akin to the price floors used by some European nations to establish a consistent gas price, even as the cost of crude oil fluctuates. But the relatively cheap price of gas - the national average was \$1.88 Tuesday, according to AAA Mid-Atlantic - has undercut public support.

17. CRUDE MATHEMATICS

A plunging oil price means cheaper petrol now – and no fuel later as industry investment shrivels

Michael Meacher
guardian.co.uk
Friday November 28 2008 09.00 GMT

A snip at \$48.50. Now that the price of a barrel of benchmark Brent crude continues to fall like a stone in the global recession, a drop of no less than two-thirds since the high point of \$147.50 just four months ago, the relief is huge among motorists and hard-pressed consumers. Conversely, for the oil-producing countries (especially Russia, Iran, Saudi Arabia, the UAE and Venezuela) it is potentially cataclysmic, though some, such as the US, may rejoice at that. But there is another dimension to this oil-price slide

which has been little noticed, but which long-term is extremely serious. If oil prices remain well below a certain critical level for any significant period of time, large amounts of investment in expected oil production capacity will simply be written off, and the consequence could then be a recovery-stopping supply-side crunch within little more than two years.

18. AN ODE TO OIL

America's oil dependency has some benefits. Roger Howard on how the diminishing resource acts as a source of stability, and forces countries to work together.

By Roger Howard
WSJ

In its collective mindset, every nation not only harbors aspirations, fears and delusions but also conjures rogues, villains and scapegoats upon which it vents its anguish, insecurities and resentments. And for many Americans, one such villain is a highly prized commodity. Oil is, after all, a primary source of man-made global warming, while spillages and drilling have sometimes inflicted lethal environmental damage. Despite the sharp falls of recent months, dramatic price rises have also underwritten every postwar global recession, including the current economic malaise. Oil lies at the heart of bitter civil wars in several parts of the world, notably West Africa, while several governments have recently been scrambling to stake their claims over the newly discovered deposits of the Arctic. Above all, it is often regarded as America's strategic Achilles' heel. President-elect Barack Obama has promised to end U.S. "foreign oil dependency," claiming that it can be used as a "weapon" that allows overseas governments, particularly "unstable, undemocratic governments...to wield undue influence over America's national security." Last weekend, Mr. Obama announced his plan to create a major economic stimulus package, including spending on alternate energy.

Alternatives

19. IBM LANDS 'SMART GRID' ACCORDS

By Christine Buurma
DJ

International Business Machines Corp. said it signed agreements with American Electric Power Co. and Consumers Energy Co. to help the companies modernize their electric grids. IBM will provide technology, communications and other support services that will allow the utilities to implement "smart grid" programs, which enable customers to track their electricity use more closely and respond to market prices. Smart grids also help utilities operate their grids more reliably and accommodate new sources of power generation, such as renewable energy projects. IBM will help AEP, of Columbus, Ohio, roll out its upgraded grid within the next three to five years, offering business consulting, software, research and other services. AEP's smart-grid program includes so-called advanced meters, which automatically collect customer usage data at regular intervals, allowing consumers to adjust their energy consumption according to price changes. The utilities collecting the data can make more-informed decisions about grid management.

20. LOW TEMPERATURE GEOTHERMAL POWER

Posted by Big Gav
TOD: Australia/New Zealand
November 29, 2008 - 12:01am

The ABC recently had a report on plans to power north-west Queensland with low temperature geothermal power using hot water from the Great Artesian Basin. A Brisbane-based company says it could supply geothermal power to all of north-west Queensland. Clean Energy Australasia wants to build a \$50 million geothermal power station near Longreach. But it has now also revealed plans to build a pilot geothermal project near BHP's Cannington mine at McKinlay, south of Cloncurry. The company's Joe Reichman says the Mount Isa region needs about 500 megawatts of power a year and geothermal resources could easily provide that. "It'll change the region into a powerhouse," he said. Mr Reichman says the company has applied for federal and state government grants and has support from the major

mining companies in the region. If the projects proceed they would be the first geothermal power plants in Australia.

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Yet for most of the day, trading at Nymex was as volatile as it had been for the entire week, save for Thursday when the market was closed for the Thanksgiving holiday.

Crude jumped 9 percent Monday, fell 7 percent Tuesday, and rose more than 7 percent Wednesday. The week has been marked by light trading, which tends to be more volatile.

For the week, crude was up about 9 percent from the settlement price last Friday.

"We were a little overcooked earlier this week, so it looks like we're going to give some of it back today," said Jim Ritterbusch, president of energy consultancy Ritterbusch and Associates.

Oil prices fluctuated between \$50 and \$55 this week, pausing after a fall of more than 60 percent since reaching a record \$147.27 in mid-July.

Grim economic data this week pointing to a severe recession in the U.S. in the fourth quarter and signs of slowing growth around the world kept prices from rebounding further.

"The drop-off in demand is going to continue," said Jonathan Kornafel, Asia director at market maker Hudson Capital Energy in Singapore. "There's no reason for the market to rally."

Oil will likely trade below \$50 a barrel and could test the \$40 level by the end of the year, Kornafel said.

Investors will be watching whether the Organization of Petroleum Exporting Countries reduces output quotas at an informal meeting Saturday in Cairo, Egypt.

OPEC oil ministers on Friday downplayed expectations of, but didn't dismiss outright, an immediate output cut.

"I don't expect a cut out of the Cairo meeting, but I do expect a 1.5 million barrel cut at their December meeting," Kornafel said. "I wouldn't be surprised to see Russia get in with OPEC either."

Energy analyst Catherine Hunter at IHS Global Insight in London said chances for the implementation before January of further output cuts by OPEC were slim, because of advance sales allocations by several members.

"This makes the meeting more about New Year's resolutions, rather than the immediate present, whatever the rhetoric surrounding Saturday's event," Hunter said in a report.

In other Nymex trading, gasoline futures for January rose less than a penny to settle at \$1.2096. Heating oil dropped 3.335 cents to \$1.7271 a gallon while natural gas for January delivery fell 36.8 cents to settle at \$6.51 per 1,000 cubic feet.

In London, January Brent crude rose 36 cents to settle at \$53.49 on the ICE Futures exchange.

2. OPEC TO DELAY PRODUCTION DECISION TO NEXT MONTH

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Crude oil prices have slumped 62 percent from July's record of \$147.27 a barrel as the global recession cuts fuel demand. Prices continued to slide even after the Organization of Petroleum Exporting Countries, the producer of more than 40 percent of the world's oil, decided to reduce production quotas by 1.5 million barrels a day on Oct. 24.

Saudi Arabia sees \$75 a barrel as a fair price for oil, King Abdullah was cited as saying by today's Al-Seyassah, a Kuwait-based newspaper. Oil prices at this level would allow investment, al-Naimi later told reporters in Cairo. Oil industry inventories should ideally be equal to about 52 days worth of demand, he said. Stockpiles exceeded that level in the third quarter, reaching about 55 days of forward demand.

'No Buyer'

OPEC President Chakib Khelil said some oil needs to be removed from the market because members can't find buyers for all of their oil.

"Some countries are unable to sell their crude," he told reporters in Cairo. "They can find no buyer. Crude should be taken off the market. The market is oversupplied."

Iraq seeks a "fair oil price" and the Saudi assessment of \$75 a barrel will be discussed at today's meeting, Oil Minister Al-Shahristani said. "Everybody is in agreement that production is too much and prices are too low," he said. Iraq isn't bound by OPEC quotas.

OPEC had called a "consultative" meeting of ministers for today rather than wait until its next scheduled December conference in Algeria, as the slowing world economy reduced global consumption faster than expected. In September, the group urged greater compliance with existing output limits.

The Cairo meeting, originally intended just for ministers from Arab nations, was expanded into a full OPEC meeting, including countries like Venezuela, Iran and Angola.

Production Estimates

The 11 OPEC states subject to output quotas will produce 27.8 million barrels a day in November, according to Geneva-based consultant PetroLogistics Ltd., in excess of their official limit of 27.3 million barrels a day.

Eleven years ago, OPEC members bickered over quotas as oil prices slid 28 percent in 10 months amid the onset of the Asian financial crisis. At a meeting in Jakarta in November 1997, they raised quotas, even as economic turmoil in Asia was slowing demand and prices fell another 44 percent by December 1998 to a low of \$10.35 in New York.

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Mr Naimi said as he walked into the meeting of the Arab oil producers held in Cairo: "This meeting is a preparatory meeting for a more resolved and firm decision in Algeria."

Mr Naimi's statement means all the major producers of Opec have now voiced their willingness to delay a new round of production cuts until their meeting in Oran, Algeria. Over the past three months, Opec has already agreed to cut 2m barrels a day of its production and analysts said the group was more than half way there.

The apparent decision to delay a further cut--though Opec has in the past managed to the surprise the market in the last minute by changing its mind and doing the opposite of what ministers had said--is a victory for those who worried the group's reputation would suffer if it promised more cuts while appearing unwilling to implement them.

This is a serious concern for Opec because the market must believe the cartel will act on its decisions to cut production if the group is to have any chance of boosting prices.

In October, the active members of Opec produced about 29m barrels a day out of total output of 86.9m barrels a day, according to the International Energy Agency, the developed countries' watchdog.

That put Opec significantly above its target of 27.31m b/d, but analysts said November production was lower and that Opec had so far adhered to about 1.2m b/d of their cuts.

More and more Opec members – including Libya, Iran and Algeria – have voiced their wish for prices of around \$70 a barrel, though analysts believe Saudi Arabia, the cartel's most powerful member, and some of its Arab neighbours, could live with substantially lower levels.

Nevertheless, Mr Naimi echoed statements Saudi King Abdullah made in a published interview on Saturday, saying \$75 a barrel would be a fair price. But oil prices are trading about \$20 below that level because global economic weakness has dramatically cut the world's need for fuel.

Chakib Khelil, Algeria's energy minister, said the situation was so dire that: "Some of us cannot sell our crude." He joined several ministers saying that Opec needed to cut the number of barrels accumulating in storage tanks held by developed countries. "Right now we have about 56 days of storage, which is very high. It would be good to have 51 [days]." High oil storage levels usually signal low demand.

In addition, the more oil that consuming countries have in storage, the less power Opec has to control prices because consuming countries could in theory release those supplies into the market and depress prices.

Data published this week by the US energy agency showed September demand in the US – Opec's biggest customer – had been lower than previously thought. US demand in September plunged by 2.6m barrels a day, or nearly 13 per cent, to 17.8m b/d.

That is the biggest percentage decline since August 1980 and pushed demand to levels not seen in 12 years. The data helped further depress prices, which have fallen dramatically from the \$147 record set in July. WTI crude futures in New York on Friday settled down a penny at \$54.43 after very thin trading due to the Thanksgiving holiday in the US.

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Sat Nov 29, 2008 4:39am EST

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"There is a good logic for \$75 a barrel," said Naimi. "You know why? Because I believe \$75 is the price for the marginal producer. If the world needs supply from all sources, we need to protect the price for them. I think \$75 is a fair price."

Naimi was speaking ahead of an OPEC meeting at 3 p.m. in Cairo to review progress on cartel output restraints agreed in the past two months that aim to remove 7 percent of its supply from the world market.

Ministers said they were likely to defer a further production cut until their meeting next month.

The Saudi comments are likely to come as a relief to major oil consumer countries hoping OPEC will not seek to push crude prices back toward \$100 barrel during a recession.

Benchmark U.S. crude closed at just over \$54 a barrel on Friday having peaked at \$147 in July.

The first priority for the Organization of the Petroleum Exporting Countries is to prevent prices, hit hard by a slump in fuel demand in the West, falling any further.

OPEC's Saturday meeting was expected to call for strict adherence to existing oil output curbs before considering further cuts when they meet next in Algeria on December 17.

"Compliance I think is OK," said Kuwaiti Oil Minister Mohammad al-Olaim. "But the market conditions require us to be 100 percent compliant."

Naimi said he would like to see inventory cover among OECD industrialized nations fall back to 52 days from current levels of 55-56 days of forward demand.

"Some of us cannot sell our crude," said OPEC President Chakib Khelil.

The deferral of tougher output restraints suggests Riyadh wants to be sure that others in the 12-member cartel are sharing the burden of the reductions.

Naimi said that Saudi Arabia's compliance with its share of the combined 2 million barrels a day (bpd) of cuts agreed in September and October was "very high."

But Saudi-owned al-Hayat newspaper quoted an OPEC source as saying that a lack of restraint by some countries was having a negative effect on oil prices.

"Compliance is less than we would like," said Shokri Ghanem, Libya's top oil official.

Evidence so far suggests good if not total adherence with last month's 1.5 million bpd cut effective from November 1, OPEC's biggest one-time cut since the world economy last faltered in 2001.

Tanker-tracking consultancy Petrologistics estimated last week that OPEC output would fall by 1.22 million bpd in November.

But the Petrologistics figures showed that nearly half of that reduction had been shouldered by Saudi Arabia, whereas Riyadh accounts for only a third of OPEC output.

5. IRAQ SAYS KURDISH CONTRACTS NOT LEGAL

Fri Nov 28, 2008 3:45pm EST

CAIRO, Nov 28 (Reuters) - Oil contracts signed by the Kurdish regional government (KRG) with foreign oil companies are not recognised by central government in Baghdad, Iraqi Oil Minister Hussain Shahrستاني said on Friday.

The comments come despite an initial agreement on Thursday between the central Iraqi oil ministry and the largely autonomous Kurdish authorities to allow exports from Kurdistan to Turkey.

Norwegian oil company DNO (DNO.OL: Quote, Profile, Research, Stock Buzz) has a concession with the KRG from which it hopes to start exports of 100,000 barrels daily in the first quarter of next year.

But Shahrستاني said the revenues from oil produced anywhere in Iraq belonged to central government for redistribution around the country.

"Those contracts have not been reviewed by the ministry of oil and have not been recognised by the federal government," he told reporters in Cairo.

"The decision is that any oil that is produced in any part of the country has to be handed over to the federal government and the ministry of oil will export it. The revenues will go to the central budget for distribution inside the country."

Shahrستاني was speaking to reporters before a Saturday OPEC meeting.

6. NIGERIA PUMPING 2.14 MILLION B/D, SHUT-INS AT 1.2 MIL B/D: NNPC

Cairo (Platts)—28 Nov 2008

Nigeria's crude production has slumped to 2.14 million b/d after pipeline sabotage in recent weeks, even further below the volume the country was producing before years of militant attacks on its oil infrastructure, a senior Nigerian oil official said Friday.

The head of crude marketing at state oil company NNPC, Aminu Baba-Kusa, said that around 1.2 million b/d of the country's crude production was currently shut in.

The festering Niger Delta crisis now accounts for 80% of the shut-ins in crude production.

Baba-Kusa said 127,000 b/d of Chevron-operated Escravos production remained shut in, with production hovering at around 220,000 b/d.

The US major November 20 said it would not be able to meet its delivery obligations on exports from the Escravos oil terminal until the end of the year after militants attacked a pipeline feeding the Warri and Kaduna refineries.

Bonny Light output, which is under force majeure due to repeated sabotage attacks to Shell-operated pipelines, stood at 214,000 b/d, with 295,000 b/d shut in, he said.

Production from forcados oil fields, which were damaged by a slew of attacks in February 2006, stood at about 170,000 b/d this week, Baba-Kusa said.

Italy's Eni has also declared force majeure to free itself from all supply obligations, after losing 82,000 b/d of normal Brass River production of 200,000 b/d.

Some 80,000 b/d of Nigeria's contribution to OPEC's October 24 decision to remove 1.5 million b/d from world oil markets beginning November 1 comes from Shell's Bonga field, Baba-Kusa said.

The spate of violence targeting Nigerian oil facilities shows no signs of abating, with the Movement for the Emancipation of the Niger Delta last week threatening to cripple oil exports and cast doubt on the government's hopes of restoring shuttered facilities.

Continuing supply disruptions in the oil-rich Niger Delta contributed to the surge in crude prices in 2007 and the first half of 2008, and have taken Nigeria's supply below that of Angola, one of OPEC's newest members, which has gradually increased its production with new offshore oilfields.

Events of recent weeks are a new blow to oil firms, most of which are already struggling to maintain operations, and to the federal government's ambitions of significantly increasing production within the next two years.

7. OUTPUT FALL STOKES JAPAN'S DEFLATION FEARS

By Michiyo Nakamoto in Tokyo
November 28 2008 16:01

Japan's industrial production and household spending fell more than expected in October, raising the spectre of a prolonged recession and triggering concern that the world's second largest economy could slip back into deflation.

Industrial production declined 3.1 per cent month-on-month in October and 7.1 per cent year-on-year. Friday's official figures reflected a sharp cutback in reaction to declining demand for Japanese exports.

In a sign that the situation was likely to get worse, companies told the Ministry of Economy, Trade and Industry they would reduce production by 6.4 per cent this month, the worst reading since the agency began its survey 35 years ago. They indicated they will make a further 2.9 per cent cut in December.

Analysts expressed surprise at the speed of the fall in production.

"It's absolutely unprecedented," for production to show a 12 per cent drop from September to December, said Richard Jerram, chief economist at Macquarie in Tokyo. "That basically tells you that export demand has collapsed," he said.

The sector that contributed the most to the fall in industrial production was transport equipment, reflecting a drop in export demand for Japanese vehicles. General machinery and electronic parts and devices were also major sectors where production declined steeply. Bankruptcies have been creeping up, with the

number of listed companies filing for bankruptcy protection hitting a post-war high of 30 so far this year, according to Teikoku Databank.

Meanwhile, household spending dropped 3.8 per cent year-on-year, the largest decline since October 2006. Consumers are tightening their purse strings amid a sharp fall in stock prices, a deterioration in the jobs market and concerns that winter bonuses will decline, said Hiromichi Shirakawa, chief economist at Credit Suisse in Tokyo.

While the fall in oil prices was a welcome development that would increase consumers' real spending power, concerns have shifted to the threat of deflation.

"We'll see deflationary pressure on Japan's economy emerge because of the effect the global financial crisis will have on capital spending," Kaoru Yosano, economy minister, told a press conference in Tokyo on Friday. "That's something we need to be cautious about."

The consumer price index rose 1.9 per cent year-on-year in October, 0.4 percentage points slower than September's rise.

"Deflation will be back within six months," said Mr Jerram, who expects prices to start falling about 1 to 2 per cent by around June. While prices rose in some categories of consumer goods, these increases were offset by falls in prices for oil and related products.

The Ministry of Labour on Friday underlined the grim outlook for the job market by unveiling a forecast that 30,000 non-regular workers would lose their jobs between October and next March.

The gloomy forecast prompted Prime Minister Taro Aso to call for measures to help the unemployed find work.

The unemployment rate improved to 3.7 per cent compared with 4 per cent in September, but an analyst said the decrease represented discouraged people who had given up looking for work.

8. GM SUSPENDS \$445-MILLION THAI DIESEL PROJECT: REPORT

Sat Nov 29, 2008 2:50am EST

BANGKOK (Reuters) - Troubled carmaker General Motors Corp (GM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) has suspended construction of its \$445-million diesel-engine facility in Thailand due to the global financial crisis, the Nation newspaper reported on Saturday.

Work on the site in Rayong, 150 kms (90 miles) southeast of Bangkok, was put on hold for one year, said Steve Carlisle, president of General Motors in Southeast Asia.

"The availability of cash is one of the problems for GM globally, and this is one of the reasons we have put on hold work at the site. Hopefully we will restart work within one year," Carlisle was quoted as saying.

A GM spokesman was not immediately available for comment.

The facility would produce engines for Chevrolet models for sale in Thailand and other markets, part of GM's strategy to offset falling U.S. auto sales, the newspaper said.

Earlier this month, GM said it would shut its Rayong plant for two months from mid-December due to falling demand caused by the global economic slowdown.

Toyota Motor Corp (7203.T: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) said it also planned production cuts in Thailand while Japanese camera maker Nikon (7731.T: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) recently

cut 1,500 staff at its Thai plants, following other international companies seeking to stave off the impact of deepening economic gloom.

(\$1=35.45 Baht)

9. GAS PRICES: LOWEST SINCE 2005

Price at the pump slips for the 72nd day in a row to \$1.835 a gallon, according to AAA.

By Kenneth Musante
CNNMoney.com staff writer
November 28, 2008: 10:21 AM ET

NEW YORK (CNNMoney.com) -- Gas prices fell to their lowest level since 2005, coming within 4 cents of \$1.80 a gallon, according to a daily survey of gas station credit card swipes by motorist group AAA.

Gas prices slipped 1.1 cents to a national average of \$1.835 a gallon, according to Friday's survey.

Prices have fallen by more than 55% since hitting a record high of \$4.114 a gallon in mid-July as the price of crude oil, gasoline's main ingredient, has plummeted.

Concern about falling fuel consumption in the midst of the current economic crisis has propelled oil prices down more than 60% since July.

Typically, energy expenditures are the first to be trimmed back during periods of economic sluggishness as business activity declines and consumers try to save money by driving less, say economists.

Gasoline prices are now below \$2 a gallon, on average, in 43 states. Missouri had the lowest prices at \$1.546 a gallon. Alaska continues to have the highest prices at an average of \$2.817 a gallon.

Diesel: The price of diesel fuel, which is used by most trucks and commercial vehicles, fell 1.2 cents to a national average of \$2.775 a gallon, according to AAA.

Diesel prices have fallen more than 40% since hitting a high of \$4.845 in July.

Ethanol: Meanwhile the price of E85, an 85% ethanol blend made primarily corn, has also fallen 1.2 cents to \$1.617 a gallon on average, according to AAA.

E85 can be used as a gas substitute in special configured "flex-fuel" vehicles. However, it is difficult to find outside of the corn-producing Midwest region, and it is not sold at the pump in some states.

The AAA figures, compiled by Oil Price Information Services, are state-wide averages based on credit card swipes at up to 100,000 service stations across the nation. Individual drivers may see lower fuel prices in different areas of each state.

10. CONGRESS SHOULD REINSTATE THE OIL SHALE MORATORIUM

By Craig Thompson
Friday, November 28, 2008

In a blind rush to promote oil shale development, the Bureau of Land Management released rules Nov. 17 governing commercial oil shale operations on public lands and royalties the companies must pay for producing oil from shale. Not surprisingly, oil shale royalties are a fraction of those charged for other public-land energy resources.

Why do we have to sweeten the deal when the potential energy reserve from Rocky Mountain oil shale is both enormous and seductive? Western Colorado knows all too well that past attempts to subsidize the industry have not worked.

Why? To begin with it is neither oil nor shale. The energy source is kerogen with a low heat content ? about 10 percent of crude oil ? a lower heat content than municipal garbage and half the heat content of prunes.

Oil shale boosters tell us that there may be a trillion or two barrels of kerogen ? perhaps 800 billion barrels of it recoverable. That is an enormous reserve and it is seductive to a fossil-fuel addicted country.

Appropriately seduced, the BLM is in an obvious hurry. Its rules will take effect three days before President George W. Bush and his administration leave office. The BLM's urgency was obvious when, in May, the agency denied a request by Wyoming Gov. Dave Freudenthal and Colorado Gov. Bill Ritter for additional time to review the 2,000 page environmental impact statement.

Why the rush? The reserve has been here for the last 50 million years.

Oil shale development will produce huge environmental costs, globally and locally.

Low-heat fuels that require a lot of energy to develop mean more carbon dioxide per unit of heat yielded. This means considerably more global warming pollution. Some of the world's top climate scientists recently have issued warnings that we are on the verge of unstoppable global warming.

Oil shale expands when retorted into an enormous solidwaste problem ? concentrated in water-soluble salts and metals that must be isolated to prevent contamination.

Also, oil shale beds often serve as the floor for aquifers. That may cause the groundwater to become contaminated with elements like arsenic and fluoride. This becomes a groundwater nightmare.

One cost of oil shale development will be paid in units of acre-feet ? water. Turning shale into useful fuel will require lakes of water in all phases of development. Water has to come from somewhere in this arid region. It can only come from unclaimed Colorado River Basin water or from existing users. The former source promises a fight and the latter a major war.

Water is just one issue. Public oil shale lands support some of the richest wildlife populations in North America ? already impacted by a booming natural gas industry. These 2 million acres in Colorado, Wyoming and Utah are home to the largest mule deer herd in the country, as well as mountain lions, black bears, bald eagles and elk. Develop that habitat and Americans will be left with an impoverished landscape.

In spite of the enormous promise, oil shale remains a finite non-renewable resource. With current technology, oil shale will not solve our energy problems. It is a desperately poor fuel that will not bring energy independence. That solution will ultimately come by converting to renewable resources.

Oil shale development may delay a transition to renewable energy that we must make in the future. That delay will come at a terrible cost to the West and perhaps to the planet.

Govs. Freudenthal and Ritter, along with Colorado Sen. Ken Salazar and Senator-elect Mark Udall get it. They have called for a go-slow approach. We need to support them and to urge them to call on Congress to reinstate the oil shale moratorium.

Craig Thompson was an oil shale worker in the 1970s, an oil shale/groundwater researcher in the 1980s, and is now professor of Engineering and Environmental Science at Western Wyoming Community College in Rock Springs. He is also the chairman-elect of the National Wildlife Federation board of directors

11. U.S. MOVES AHEAD ON OIL, GAS LEASES ON PUBLIC LAND

Decision Could Pose Problem for Obama

By Juliet Eilperin

Washington Post Staff Writer

Saturday, November 29, 2008; A01

A decision by federal officials this week to press ahead with a controversial sale of oil and gas leases in eastern Utah is stoking the debate over how to balance the nation's needs for fossil fuels against concerns over the environmental impact on iconic national parks and other sensitive areas.

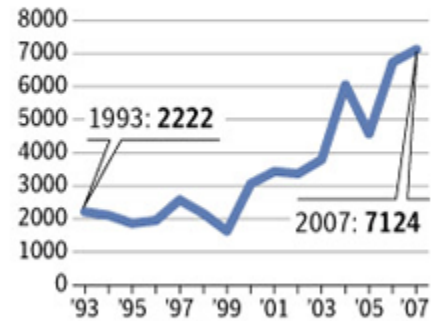
The Bush administration, which has sought to reduce American dependence on imports to meet the continuing demand for oil and gas, has aggressively pushed to open up energy exploration across broad swaths of the West, off both coasts, and in Alaska. But those initiatives regularly stir opposition from both environmentalists and advocates of faster development of alternative energy sources such as wind and solar power.

Over the last four fiscal years, a [Washington Post](#) analysis of [Bureau of Land Management](#) records shows, the government has dramatically accelerated the pace of awarding oil and gas drilling permits on federal land. The total for the period is nearly triple the number issued in the corresponding years under former [President Clinton](#), and the number of new wells sunk on federal land is more than double Clinton's record over the comparable period.

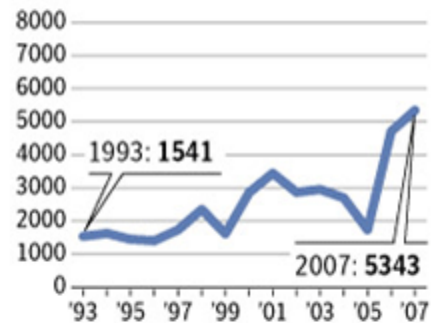
Searching for Energy

President Bush's pro-drilling policies have led to a sharp increase in energy exploration on public lands.

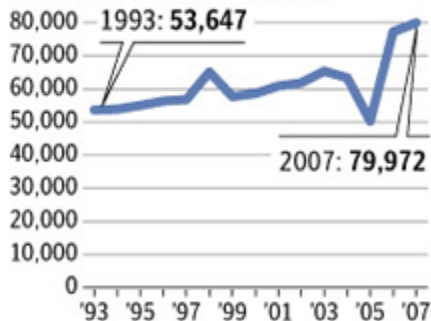
Number of drilling permits approved



Number of new wells started



Number of wells in production



Source: Bureau of Land Management
The Washington Post

In the latest skirmish, the bureau announced Tuesday that it will proceed with most of a proposed sale of oil and gas leases on nearly 500 square miles of public land in eastern Utah, which had sparked protests from environmental advocates and [National Park Service](#) officials. Opponents fear the drilling activity will damage air quality in several nearby popular national parks.

The lease sales, due to take place next month, could pose a challenge for the incoming [Obama](#) administration, which will have to decide shortly after taking office whether to honor the contracts, seek to undo the leases or pay millions in taxpayer dollars to buy them back.

[White House](#) spokesman [Tony Fratto](#) said the administration was responding to two realities: the fact that the United States will "be using oil as an energy source for the foreseeable future, the next 50 years, and we want to reduce our dependence on foreign oil because it's a security and economic threat."

"If we're going to do that, we're going to explore where we think the oil is going to be," he said. "It's possible to drill in environmentally sensitive areas in safe ways."

Energy industry experts said the government is providing access to a place that Richard Ranger, a senior policy adviser to the [American Petroleum Institute](#), called "an area of growing promise." Ranger noted that for the past few years the Bureau of Land Management office in Vernal, Utah, has been "one of the five or six most active BLM offices in terms of issuing drilling permits."

Advances in a process called hydraulic fracturing have allowed companies to extract oil and natural gas from areas that were inaccessible in the past. Partly as a result, 40 percent of U.S. gas consumption last year came from wells drilled in the past four to five years.

"It was a combination of economics and better technology so we could go after resources in the West," said Kathleen Sgamma, director of government affairs for the Independent Petroleum Association of Mountain States.

The rise in energy prices and demand during Bush's tenure has spurred development in both the West and East: In 2007, domestic oil production slightly increased for the first time in years.

Places such as Utah offer huge potential for energy producers, but development there has triggered controversy because of its proximity to some of the nation's most scenic parks and natural monuments. After Park Service officials on Monday identified 93 proposed auction parcels where leasing could jeopardize "air quality, water resources and natural sound," BLM officials announced late the next day that they would defer action on two dozen of those parcels as well as portions of four more, while pressing ahead with more than 210 parcels encompassing 313,000 acres.

Environmental activists said oil and gas drilling on the 210 remaining parcels could jeopardize air quality and other natural features of some of the country's most treasured national parks, such as Arches, Canyonlands and Capitol Reef, along with the Grand Staircase-Escalante and Dinosaur national monuments.

"The Bush administration started its energy policy in back rooms with oil lobbyists, and it's fitting that's how they want to end it," said Bobby McEnaney, a public lands expert at the [Natural Resources Defense Council](#), an advocacy group. "They're destroying the whole process that is designed to protect these lands. Once you get rid of wilderness, you can't get it back."

David Garbett, a staff attorney for the Southern Utah Wilderness Alliance, said that in the last month, the administration also finalized six "resource management plans" that will allow the bureau to auction off other parts of these areas in the future.

"These plans will govern management of these lands for likely the next 20 years, and these plans have made areas like this available for leasing," Garbett said. "It's a final attempt by the administration to set in stone guidance for these lands for the long term, in a way that will not protect resources."

In a statement Tuesday, the bureau's Utah state director, Selma Sierra, said her agency and the Park Service had engaged in a "constructive dialog" that "has resulted in a positive outcome" on how best to treat public lands in that state. "This is important for two sister agencies with environmental stewardship missions."

[Mike Snyder](#), regional director for the Park Service's Intermountain Region, who negotiated with Sierra over the lease plan, said he is pleased with the decision to defer lease agreements on some parcels but still has concerns about how drilling will affect national parks.

"It's just the beginning," Snyder said in an interview Wednesday. "The resource management plans have many, many more acres that could be leased in the future."

Snyder said he had hoped that the bureau would conduct an analysis of how drilling would affect air quality in Arches, Canyonlands and other national parks that are at risk of not meeting federal ozone pollution standards, but that that will not happen. He said the 24 parcels where the BLM deferred leasing are "the really sensitive, extraordinary cases" and that the bureau will consult with the Park Service on spelling out protections in some of the parcels being auctioned off next month.

Karen Hevel-Mingo, program manager for the Southwest regional office of the [National Parks Conservation Association](#), said the fact that the BLM has agreed only to a deferral on the two dozen leases means they could still end up on the auction block in March, when the next sale is slated to take place.

"There is concern those parcels are still available for future oil and gas development," she said.

But Sgamma said the administration spent seven years consulting with a range of interests before adopting the resource management plans that allow for drilling: "There were a lot of things industry was interested in that finally now are available for leasing."

The Obama administration could seek to reverse some of the leases, but that could prove costly. Environmentalists plan to challenge the choice of several parcels over air quality concerns, and technically the bureau has 60 days after a lease sale to determine whether it has been "improperly issued" and refund the money.

But Tim Spisak, division chief for fluid minerals for the bureau, said that for the agency to do so, "they've got to have a reason; it's not just like, somebody just thinks differently." That the government just issued the six new resource management plans, he added, makes it "less likely" that the BLM could say it has found new information that would terminate the leases.

Alternatively, the federal government could buy back the leases if the companies that won them were willing to sell. But Sgamma warned that "it would be very expensive to buy that out," adding: "Once you get a lease out, it's a contract, and you can't renege on that contract."

12. GM SOLICITS DEBTHOLDERS IN ITS EFFORT TO REVAMP

By John D. Stoll And Monica Langley
WSJ
November 28, 2008, 11:48 P.M. Et

General Motors Corp. is trying to lure some of its debtholders into exchanging debt for equity, as it tries to steer clear of a Chapter 11 bankruptcy-law filing, people familiar with the plan said.

Chief Executive Rick Wagoner and top lieutenants are scrambling to assemble the business plan they need to deliver to Congress by Tuesday. The plan needs to prove the car maker can remain a viable company amid bleak market conditions. GM will argue that with a short-term loan from the government, along with agreements with creditors and unions, it can reshape itself into a leaner entity.

That plan, yet to be approved by GM's board, is expected to include details on how GM will lighten its debt obligations without the protection of bankruptcy court, these people said.

GM's board, set to meet this weekend, is expected to scrutinize the plan and play a role in crafting whatever document is submitted to Congress. A bankruptcy filing could cost Mr. Wagoner his job.

By agreeing with certain debtholders to take equity in exchange for existing debt, the auto maker could offer these investors an alternative to a bankruptcy filing. Many unsecured debtholders stand to absorb big losses on their investment. Access to equity could allow them to cash out of the company at a more attractive price. The proposition comes as the company's debt is trading at distressed levels.

GM's stock on Friday rose 8.9%, or 43 cents, to \$5.24, in New York Stock Exchange composite trading.

"The terms will be very important," KDP Investment Advisors auto analyst Kip Penniman said. He said investors will ask "are they really going to fix this company or are we going to potentially be back in a bankruptcy situation in a couple of years."

Mr. Penniman said this type of maneuver could be critical to gaining government support, but if it isn't accompanied by strategy shifts, bondholders may balk.

GM has run through about \$13 billion over the first nine months of the year due to restructuring expenses, weakness in global demand and other factors. The company is scrambling to cut costs and boost sales in order to maintain adequate liquidity through the end of the year.

A component of GM's survival is persuading the government to provide at least \$10 billion to \$12 billion in bridge loans to keep the company afloat through 2010. In addition, GM has been pressing banks, investors and other parties to help it as it looks to unload assets, raise financing and reduce its debt obligations.

"At a high level, we think interest expense reduction is needed immediately for cash flow improvement, but GM simply needs to reduce overall leverage," J.P. Morgan Chase & Co. auto analyst Himanshu Patel said in a research note in the past week. "This suggests principal reduction should be one of the primary drivers of debt restructuring."

GM's debt load, estimated by J.P. Morgan to total \$43.3 billion at an annual interest expense of about \$2.9 billion, has been a primary culprit in the company's deterioration in recent years. Many analysts have suggested GM needs to file for Chapter 11 bankruptcy-court protection in order to force creditors to renegotiate.

GM's blueprint is being put together as executives at Ford Motor Co. and Chrysler LLC also craft plans for Congress. Together, Detroit's three auto makers seek \$25 billion in aid from the government, arguing that a lack of consumer demand and frozen credit conditions have wrecked restructuring efforts.

Mr. Wagoner is leading the GM team responsible for crafting the plan for Congress and will be present for hearings scheduled to take place Thursday and Friday.

Executive compensation cuts, a shrinking of the brand portfolio and a demand for additional union cost concessions are among potential moves the auto maker is considering. United Auto Workers officials couldn't be reached for comment.

GM's board has ratcheted up pressure on Mr. Wagoner in recent weeks, several people familiar with the matter said. While the company's lead independent director, George Fisher, supports the management team, more than a quarter of GM's 14 directors have privately expressed frustration with Mr. Wagoner, people close to the board said.

But the list of potential successors to Mr. Wagoner is short, with Chief Operating Officer Fritz Henderson being the chief candidate, these people said.

Mr. Henderson has been working with Mr. Wagoner to restructure GM for the past three years, and was a chief architect of merger negotiations with Chrysler majority owner Cerberus Capital Management LP, which ended this month.

One difference between GM's board and Mr. Wagoner's team is the approach toward a potential bankruptcy filing.

A week ago, GM said its board will consider all options, including a possible bankruptcy filing. Mr. Wagoner has said such an action isn't an alternative.

13. AUTO SLUMP SEEN ROLLING THROUGH NOVEMBER

By Soyoung Kim and David Bailey
Fri Nov 28, 2008 1:26pm EST

DETROIT (Reuters) - Undercut by tight credit and a weak economy, November U.S. auto sales are expected to have dropped by some 30 percent from a year earlier, extending a year-long downturn that has pushed Detroit-based automakers to the brink of failure.

U.S. automakers, struggling to conserve cash as they battle for survival, are poised to report sales declines of about 35 percent. Japanese automakers such as Toyota Motor Corp (7203.T: Quote, Profile, Research, Stock Buzz) are also certain to have been hit by collapsing demand in the world's biggest vehicle market.

November sales are due for release on Tuesday, the deadline for U.S. automakers to submit turnaround plans requested by Congress for considering \$25 billion in government loans for the cash-strapped industry.

General Motors Corp (GM.N: Quote, Profile, Research, Stock Buzz) and Chrysler LLC (C: Quote, Profile, Research, Stock Buzz) have both warned it would be difficult to survive without urgent government funding.

Honda Motor Co (7267.T: Quote, Profile, Research, Stock Buzz) Executive Vice President Koichi Kondo said U.S. auto demand looked "bad" again in November, adding Honda's sales decline would be only slightly narrower than the 28 percent drop posted in October.

"There's a bottom somewhere but I'd like to know where it is," Kondo told Reuters in an interview on Friday.

Analysts expect U.S. light vehicle sales to be down from 28 percent to 34 percent in November from a year earlier.

The seasonally adjusted annual rate of sales, a key indicator tracked by analysts and the auto industry, is likely to come in between 10.5 million and 11.5 million vehicles, down from the 16.1-million-units rate recorded in November 2007.

The year-to-year decline in November sales would mark the 13th consecutive monthly drop in U.S. auto sales, extending a slump expected to be running at least through 2009.

Analysts said the only modestly encouraging aspect to November sales is likely to be that the annualized sales rate will have come in a bit higher from the 10.6-million rate for October, bolstered by aggressive discounting by the automakers. October's result was the lowest sales level in 25 years.

Toyota extended a zero-financing offer it had launched in October during November. Nissan Motor Co (7201.T: Quote, Profile, Research, Stock Buzz) began its own zero-percent offer and GM rolled out a "Red Tag" sale with lower vehicle prices and cash-back offers.

ALL EYES ON BAILOUT

The November sales data will be watched in Washington, where U.S. lawmakers are scheduled to reconvene to review the restructuring plans submitted by the U.S. automakers and consider their request for a \$25 billion rescue package.

Analysts have said some form of government assistance is more likely than not amid growing concern about the risks to the U.S. economy from failing to prevent a collapse of one of the Detroit automakers.

On the other hand, the high-profile debate about the risk of a bankruptcy by GM or Chrysler could have hurt their sales in November, JPMorgan analyst Himanshu Patel said.

High gas prices and a weak housing market weighed on U.S. auto sales earlier in 2008, but the plunge in consumer confidence to near record lows in the wake of the credit market turmoil has pushed out expectations for a recovery to 2010 and beyond.

Standard & Poor's expects U.S. light vehicle sales of 13.3 million units in 2008 -- the lowest level in 15 years -- and 12.3 million units in 2009, down from 16.1 million in 2007.

"The most common comment we have received from dealers and other industry sources is that November looks a lot like October -- no better but also no worse," Deutsche Bank analyst Rod Lache said. He forecast an annualized sales rate of 10.5 million units for November.

Lache expects GM sales to be down 42 percent from a year ago, Ford sales down 33 percent and Chrysler off 45 percent.

Toyota sales are seen down 25 percent, with Honda and Nissan seen posting sales declines of 25 percent and 35 percent, Lache said.

Dealer inventories at the end of October topped 100 days of supply for the first time, based upon October's low selling rate, led by GM's inventory totaling 125 days of supply.

"I tend to look at October as abnormally low," said Robert Schnorbus, chief economist at industry-tracking firm J.D. Power & Associates.

November sales will likely show a marginal improvement from October because of the incentives on offer across the industry, he said.

"I think we will see the relentless declines stop. Even if we don't get a bounce-back, there will be some relief the market has not gone below 10 million units," Schnorbus said.

14. UKRAINE, SEEKING RUSSIAN DEAL, VOWS TO ENSURE EUROPE GAS SUPPLY

By Halia Pavliva and Daryna Krasnolutska

Nov. 28 (Bloomberg) -- Ukrainian President Viktor Yushchenko urged the government to resolve a dispute with Russia on an agreement for natural-gas supplies, vowing that his country will maintain uninterrupted shipments to Europe.

Ukraine guarantees the stable transit of gas to Europe regardless of how its relationship with Russian exporter OAO Gazprom develops, Bohdan Sokolovskyi, an aide to Yushchenko, said today in an e-mailed statement.

Gazprom reduced supplies to Ukraine in March over an unsettled debt, while it cut deliveries for more than two days in January 2006 amid a pricing dispute, leading to delivery shortfalls in Europe. The president urged Prime Minister Yulia Timoshenko's government to reach an agreement on 2009 supplies by Jan. 1 and reassured consumers abroad, Sokolovskyi said.

"Ukraine is able to fulfill its obligations on gas supply to foreign markets as well as on the domestic market," he said.

Russian President Dmitry Medvedev ordered Gazprom on Nov. 20 to recover debts for supplies from Ukraine, whose pipelines ship 80 percent of Russian gas exports to western Europe. Gazprom Chief Executive Officer Alexei Miller said Russia's neighbor owed \$2.4 billion. The company said later it would do everything to avoid another cutoff in supplies.

Ukraine's state-run energy company, NAK Naftogaz Ukrainy, said last week it owes RosUkrEnerg AG, the sole importer of gas into Ukraine since 2006, \$1.27 billion for shipments. A discrepancy in how much

Ukraine owes Gazprom arose because Naftogaz didn't count penalties and fines for late payment, Sergei Kupriyanov, a spokesman for Gazprom, said Nov 26.

Ukraine pledged to clear part of the debt by Dec. 1 and then continue talks, Naftogaz CEO Oleh Dubina said this week.

"Yushchenko is also holding active talks with Ukrainian and foreign partners to resolve all gas issues," Sokolovskyi said.

15. GENERAL JONES AND THE CHAMBER OF COMMERCE ENERGY PLAN

Posted by Heading Out
The Oil Drum
November 28, 2008 - 9:23am

Well they say that "the Times they are a changin' " and with the impending change in the Administration and its approach to energy , and the change in the leadership of the Energy and Commerce Committee in the House, I suspect that change is what we are going to get. One indicator of a possible path forward comes from the U. S. Chamber of Commerce, where General James Jones, anticipated to be the next National Security Advisor, has been heading a panel that has just issued A Transition Plan for Securing America's Energy Future. So I thought we might take a quick look at what it says. To quote the preamble

Global demand (for energy) will increase by more than 50% between now and 2030 – and perhaps by as much as 30% here in the United States. We must develop new, affordable, diverse, and clean sources of energy that will underpin our nation's economy and keep us strong both at home and abroad. Our energy future must address growing shortfalls in infrastructure capacity and emerging environmental issues. . . .
.And looking ahead, even the most optimistic among us must conclude that we are not well positioned to anticipate nor prepared to meet tomorrow's energy needs.

Based upon an initial list of 13 pillars that had been submitted as an open letter earlier this year, the Chamber has presented a detailed plan to move forward. The thirteen pillars are:

1. Aggressively Promote Energy Efficiency
2. Reduce the Environmental Impact of Energy Consumption and Production
3. Invest in Climate Science to Guide Energy, Economic and Environmental Policy
4. Significantly Increase Research, Development Demonstration and Deployment of Advanced Clean Energy Technologies
5. Significantly Expand Domestic Oil and Gas Exploration and Production
6. Commit to and Expand Nuclear Energy Use
7. Commit to the Use of Clean Coal
8. Increase Renewable Sources of Energy
9. Transform our Transportation Sector
10. Modernize and Protect U.S. Energy Infrastructure
11. Address Critical Shortages of Qualified Energy Professionals
12. Reduce Overly Burdensome Regulations and Opportunities for Frivolous Legislation
13. Demonstrate Global Leadership on Energy Security and Climate Change.

To ensure that the program is given the importance it deserves, the plan recommends the creation of a new office within the Executive Office of the President, to coordinate energy policy. Further that the holder of this post should sit on the National Economic and National Security Councils.

The plan then goes ahead to list 88 recommendations as a roadmap to meeting the above imperatives. In the interests of space, and time, I am not going into all of these – they are broken down into initiatives from the President and Administration, those that involve the Administration and Congress, those that relate mainly to Congress, and the Individual States. They are divided by the thirteen themes listed above, so let me briefly glance at each sector and give you my abbreviated thoughts on the recommendations for that theme.

In the area of Energy Efficiency, part of the recommendations relate to tax incentives for items such as more energy efficient buildings and the installation of more efficient appliances, windows, furnaces etc, but carry those on into the electric grid and smart grid devices. Since the document is from the Chamber it is more oriented toward business, but Alan wrote to me earlier this week about the Energy Savings that can come from retrofitting homes, citing the Austin Energy initiative, and the significant energy savings it has accomplished by the sort of Aggressive approach that the Chamber seems to be advocating. This pro-active sort of program is claimed to have saved the energy of a 500 MW power plant already, and at that level would also seem to deserve inclusion in the agenda, but does not appear.

Moving on to Environmental Impacts (separated from Climate Science) it seeks Congressional activity to give tax credits for retrofitting existing coal-fired power plants to reduce criteria pollutants and carbon dioxide emissions. It also seeks clarification that greenhouse gas emissions should not be regulated under the Clean Air Act or the Endangered Species Act.

There is an interesting paragraph in the section on Climate Science, which largely calls for a greater investment in Climate Science, and the integration of data. It reads:

To maintain the public's trust and support and to ensure transparency, researchers who receive federal support should be required to disclose their data, models, and other relevant material, subject to protections for confidential business information, so that results can be assessed and reproduced.

Perhaps, having read of some of the issues that Steve McIntyre has had with the hockey stick plot of global temperature rise, I will quietly tiptoe away from this one. It is difficult to dispute, however, the need for the integrated surface, ocean and space-based observation network that the plan calls for.

In the field of Clean Energy Technologies the plan calls for venture capital firms and businesses to work within the national laboratories to commercialize technologies being developed there. It calls for a new ARPA-E program or its equivalent to fund high-risk, exploratory research on innovative concepts and enabling technologies, and also notes the need for an Electrical Energy Storage Initiative to develop cost-effective technologies that can store 50 to 100 MW of power, for use with intermittent technologies (I presume that means wind and solar). It calls for doubling federal spending on Energy Technology R&D, a long-term tax credit for companies in that area, and a Clean Energy Bank that will be able to accelerate the market penetration of advanced clean energy technologies.

Under the section dealing with the expansion of Domestic Oil and Gas Production it seeks to open the Outer Continental Shelf, encourage the Alaska natural gas pipeline and the expansion of the leasing program for access to fuel sources on non-park federal lands. It recommends repeal of the rule that prevents the federal government from using non-traditional transportation fuel sources.

Seems that Leanan had noted that the Bush Administration was doing something about the access to federal lands earlier last week, we'll just have to see how that one plays out. As to the fuel source issue, seems to me there was a Congressman . . .

And speaking of Congressmen, it should be noted that if Leanan's catch on the new head of the Energy and Commerce Committee not liking hydrofracing holds up then it is possible that the techniques that are currently producing gas from the shales of the East and Mid-West might be in trouble. He seems a sort of determined type of guy, so again, we'll just have to see how that plays out.

Under the section dealing with the Expansion of Nuclear Energy, the plan calls for a resolution of the storage issue for spent fuel, and growth in the strategic stockpile of uranium.

Under Clean Coal technology it suggests partnering with other governments in advancing CCS technology, it recommends \$500 million toward the IGCC program and related carbon capture technology research, and \$500 million for an IGCC demonstration plant, with creation of an industry-funded research program to support further R&D in this area. It suggests that tax credits be used to encourage the first five or six advanced coal-fired plants.

When discussing Renewable Sources of Energy, the plan does not single out different potential programs, but rather (within the framework of doubling overall federal R&D spending) recommends more research and more tax credits to encourage investment. Maybe they think that all the current commercials for the technology, and the support of T. Boone will be all that it takes.

The recommendations for the Transportation Sector include encouragement for the military to find alternate sources of fuels for military use. Interestingly it is here that the possible conflict between biofuels and food is addressed, with the suggestion of a multi-agency review, though the problem gets tossed to the National Academies for recommendations. Sadly there is no encouragement of urban transportation systems, such as those that Alan, inter alia, advocates.

Infrastructure recommendations include the implementation of a smart grid, the inclusion of refined products in the Strategic Petroleum Reserve, which should be grown to 1 billion barrels, and the problems that water availability is going to bring to the production and availability of energy.

Hmm, and the section on the Critical Shortage of Energy Professionals – apart from the nice sounding “providing adequate financial and institutional support for researchers”, I don’t see a lot of recognition of a real program that will help get us where we need to be, though it contains the appropriate phraseology. Motivation, motivation, motivation . . . (so--when are we all retiring ??)

Under the heading of Reducing Frivolous Litigation, it suggests streamlining the permitting of refineries, a federal siting authority and a review of the Clean Air Act to allow routine maintenance. (This one goes right by me – I have no clue!!)

And that brings us to the final recommendations on Leadership in Energy Security and Climate Change. This includes the safety of international shipping routes, and the raising of energy as a critical part of the U.S. trade agenda. In light of our other ongoing discussions on the IEA it does recommend a strengthening of support for that Agency, and for the expansion of its membership to include India and China. It also calls for the creation of an International Clean Energy Fund, and as something close to Matt Simmon’s heart

Nations should improve transparency, reliability, and availability of oil and gas market data as well as their analysis of long- and short-term supply and demand trends to help make the world energy market less volatile.

Well, this has been a bit longer than usual, and yet has only skimmed the highlights of the recommendations, so I would encourage you to visit the site, and then add comments to perhaps explain some of the issues that I have glossed over. We will see if it has any future.

16. CHEAP GAS STALLS GREEN EFFORTS

Tom LoBianco
Washington Times
Friday, November 28, 2008

Advocates of energy conservation and renewable fuels may be the only ones in America looking back nostalgically on the days of \$4-a-gallon gasoline.

The political will to reform energy policy and the public's demand for alternative fuels and more efficient cars appear likely to fall off as rapidly as the price of a gallon of gas, posing a new dilemma for champions of green energy and conservation.

Environmental advocates, and a few conservative thinkers, have begun talking about the need for a variable gasoline tax akin to the price floors used by some European nations to establish a consistent gas price, even as the cost of crude oil fluctuates.

But the relatively cheap price of gas - the national average was \$1.88 Tuesday, according to AAA Mid-Atlantic - has undercut public support.

"What happens is there's no long-term response," said Daniel Sperling, a professor of civil engineering and environmental science and policy at the University of California at Davis, who is pushing a plan to create a price floor. "We almost overcame that mind-set."

The price-floor idea, like other explicit gasoline tax proposals, has received little favor in Congress, where members are ever-wary of new taxes.

Senate Energy and Natural Resources Committee Chairman Jeff Bingaman, New Mexico Democrat, shot down the idea of any new gasoline tax last week.

"I don't think something like that has much prospect of being enacted," Mr. Bingaman told a group at the Center for Strategic and International Studies.

The federal gasoline tax is 18.4 cents for every gallon of fuel, and states typically add their own gasoline tax that averages about 22 cents per gallon.

The gasoline tax has not been a political winner in Washington, historically.

President Carter's efforts to pass a 50-cent gasoline tax during the energy crisis of the late 1970s were received with laughter.

"The outrage and the laughter that just filled the country - not just this town - sank that," broadcaster Sam Donaldson said at a U.S. Chamber of Commerce event last week.

Democratic lawmakers instead have looked to reduce tax credits for oil companies and tack on a windfall profits tax.

Renewable energy advocates have mixed opinions on what the sinking price at the pump will do for their chances.

Last week, President-elect Barack Obama said his job pitching energy reform to the public became more difficult after the national average cost of gasoline hit \$2.07 a gallon - roughly half the national average motorists paid last summer.

"It may be a little harder, politically, but it's more important," Mr. Obama said in an interview with CBS' "60 Minutes" that aired Nov. 16. "Oil prices go up, gas prices at the pump go up, everybody goes into a flurry of activity. And then the prices go back down and, suddenly, we act like it's not important, and we start, you know, filling up our SUVs again. And, as a consequence, we never make any progress."

But former Vice President Al Gore, the most visible face of the environmental movement, said Americans learned their lesson this summer, regardless of the subsequent price dive.

"I don't think we're going to fall for it this time," Mr. Gore said in a recent interview with CNN.

Industry analysts say new gasoline taxes are never popular, regardless of the political climate or the rationale.

"A tax is a tax is a tax, no matter how you try to hide it," said Frank Maisano, an energy specialist who works with oil refiners. "Obviously, Senator Bingaman understands that."

17. CRUDE MATHEMATICS

A plunging oil price means cheaper petrol now – and no fuel later as industry investment shrivels

Michael Meacher

guardian.co.uk
Friday November 28 2008 09.00 GMT

A snip at \$48.50. Now that the price of a barrel of benchmark Brent crude continues to fall like a stone in the global recession, a drop of no less than two-thirds since the high point of \$147.50 just four months ago, the relief is huge among motorists and hard-pressed consumers.

Conversely, for the oil-producing countries (especially Russia, Iran, Saudi Arabia, the UAE and Venezuela) it is potentially cataclysmic, though some, such as the US, may rejoice at that. But there is another dimension to this oil-price slide which has been little noticed, but which long-term is extremely serious.

If oil prices remain well below a certain critical level for any significant period of time, large amounts of investment in expected oil production capacity will simply be written off, and the consequence could then be a recovery-stopping supply-side crunch within little more than two years.

That critical level is widely reckoned within the oil industry to be \$90 a barrel. A current price as low as half that critical level is already forcing many companies to drop oil projects, and the banking crisis is also squeezing project financing for foreign oil companies operating in OPEC and outside.

Russia's four major energy companies – Gazprom, LUKoil, Rosneft, and TNK-BP – depend heavily on debt to finance operations, and are scaling down their investments. They have already been forced to seek an allocation of more credit to refinance their external debts. But with Russia now facing a \$150bn shortfall in its spending plans for 2009 and where Russian markets have lost 70% of their value in just six months since May, it is all too likely they will be forced to slash their investments further.

The consequences of this for the EU and the UK are very serious. Since the EU gets 40% of its gas from Russia, where 70% of the gas fields are already in decline, any further major cutting-back in future oil and gas investments could act as a pincer on EU and UK energy supply. Indeed, the Russian energy industry has warned that if the decline continues, Russia may not be able to service even its own domestic gas needs by 2010 – this from a country where Gazprom is the largest extractor of gas in the world.

A prolonged slump in the oil price at below \$50 a barrel will thus inevitably lead to another cycle of shortages and soaring prices. This intense price volatility is the first stage of the devil's see-saw that is likely to accompany the coming of Peak Oil, which is widely expected within the next five years.

These very sharp boom-and-bust capitalist cycles in oil may well turn out to be even more globally destabilising than the credit crunch. What is clearly needed, though sadly highly unlikely, is an international conference (perhaps as a serious offshoot from the lightweight G20 conference a week ago?) to reach a binding agreement on the oil price for a five-year period rolled forward, which might then avoid the massive overshoot in prices at both peak and nadir which we are seeing at the present time, with potentially calamitous consequences.

18. AN ODE TO OIL

America's oil dependency has some benefits. Roger Howard on how the diminishing resource acts as a source of stability, and forces countries to work together.

By Roger Howard
WSJ

In its collective mindset, every nation not only harbors aspirations, fears and delusions but also conjures rogues, villains and scapegoats upon which it vents its anguish, insecurities and resentments. And for many Americans, one such villain is a highly prized commodity.

Oil is, after all, a primary source of man-made global warming, while spillages and drilling have sometimes inflicted lethal environmental damage. Despite the sharp falls of recent months, dramatic price rises have also underwritten every postwar global recession, including the current economic malaise.

Oil lies at the heart of bitter civil wars in several parts of the world, notably West Africa, while several governments have recently been scrambling to stake their claims over the newly discovered deposits of the Arctic. Above all, it is often regarded as America's strategic Achilles' heel. President-elect Barack Obama has promised to end U.S. "foreign oil dependency," claiming that it can be used as a "weapon" that allows overseas governments, particularly "unstable, undemocratic governments...to wield undue influence over America's national security." Last weekend, Mr. Obama announced his plan to create a major economic stimulus package, including spending on alternate energy.

Alarming as these scenarios are, they disguise the true picture, one that is really much more complicated and much more reassuring. While there are, of course, circumstances in which oil can exacerbate tensions and be a source of conflict, it can also act as a peacemaker and source of stability. So to identify America's "foreign oil dependency" as a source of vulnerability and weakness is just too neat and easy.

This identification wholly ignores the dependency of foreign oil producers on their consumers, above all on the world's largest single market -- the United States. Despite efforts to diversify their economies, all of the world's key exporters are highly dependent on oil's proceeds and have always lived in fear of the moment that has now become real -- when global demand slackens and prices fall. The recent, dramatic fall in price per barrel -- now standing at around \$54, less than four months after peaking at \$147 -- perfectly exemplifies the producers' predicament.

So even if such a move were possible in today's global market, no oil exporter is ever in a position to alienate its customers. Supposed threats of embargoes ring hollow because no producer can assume that its own economy will be damaged any less than that of any importing country. What's more, a supply disruption would always seriously damp global demand. Even in the best of times, a prolonged price spike could easily tip the world into economic recession, prompt consumers to shake off their gasoline dependency, or accelerate a scientific drive to find alternative fuels. Fearful of this "demand destruction" when crude prices soared so spectacularly in the summer, the Saudis pledged to pump their wells at full tilt. It seems that their worst fears were realized: Americans drove 9.6 billion fewer miles in July this year compared with last, according to the Department of Transportation.

Instead, the dependency of foreign oil producers on their customers plays straight into America's strategic hands. Washington is conceivably in a position to hold producers to ransom by threatening to accelerate a drive to develop or implement alternative fuels, realizing the warning once uttered by Sheikh Ahmed Zaki Yamani, the former Saudi oil minister who pointed out that "the Stone Age did not end for lack of stone." Back in 1973, as they protested at Washington's stance on the Arab-Israeli dispute, Middle East producers were in a position to impose an oil embargo on the Western world. But a generation later, technological advances, and the strength of public and scientific concern about global warming, have turned the tables.

The United States has powerful political leverage over producers because it holds the key to future oil supply as well as market demand. The age of "easy oil" is over, and as fears grow that oil is becoming harder to get, so too will the dependency of producers on increasingly sophisticated Western technology and expertise.

Such skills will be particularly important in two key areas of oil production. One is finding and extracting offshore deposits, like the massive reserves reckoned to be under the Caspian and Arctic seas, or in Brazil's recently discovered Tupi field. The other is prolonging the lifespan of declining wells through enhanced "tertiary" recovery. Because Western companies have a clear technological edge over their global competitors in these hugely demanding areas, Washington exerts some powerful political leverage over exporters, many of whom openly anticipate the moment when their production peaks before gradually starting to decline.

Syria illustrates how this leverage can work. Although oil has been the primary source of national income for more than 40 years, production has recently waned dramatically: Output is now nearly half of the peak it reached in the mid-1990s, when a daily output of 600,000 barrels made up 60% of gross domestic product, and can barely sustain rapidly growing domestic demand fueled by a very high rate of population growth. With enough foreign investment Syrian oil could be much more productive and enduring, but Washington has sent foreign companies, as well as American firms, a tough message to steer well clear.

It is not surprising, then, that the Damascus regime regards a rapprochement with the U.S. as a political lifeline and in recent months has shown signs of a new willingness to compromise.

The same predicament confronted Libya's Col. Moammar Gadhafi, who first offered to surrender weapons of mass destruction during secret negotiations with U.S. officials in May 1999. Facing a deepening economic crisis that he could not resolve without increasing the production of his main export, oil, Col. Gadhafi was prepared to bow to Washington's demands and eventually struck a path-breaking accord in December 2003. Col. Gadhafi had been the "Mad Dog" of the Reagan years, but oil's influence had initiated what President Bush hailed as "the process of rejoining the community of nations."

Oil could also help the outside world frustrate the nuclear ambitions of Iran, whose output is likely to steadily decline over the coming years unless it has access to the latest Western technology. Many wells are aging rapidly and the Iranians cannot improve recovery rates, or exploit their new discoveries, unless Washington lifts sanctions, which have been highly successful in deterring international investment.

Sometimes the markets will prove at least as effective as any American sanctions in keeping a tight political rein on oil producers. For example, when Russian forces attacked South Ossetia and Georgia on Aug. 8, Russia's stock market -- of which energy stocks comprise 60% -- plunged by nearly 7%, and within a week capital outflow reached a massive \$16 billion, suddenly squeezing domestic credit while the ruble collapsed in value. A month later, the country was facing its worst crisis since the default of August 1998. But the future of the oil sector is so dependent on attracting massive foreign investment, and the wider Russian economy so heavily dependent on petrodollars, that the Kremlin simply can't afford to unnecessarily unnerve investors.

Today the markets know that Russia needs at least \$1 trillion in investment if it is to maintain, let alone increase, its oil production. Just five years ago, output was increasing so fast -- energy giants Yukos and Sibneft were posting annual production gains of 20% -- that even the Saudis were worried about their own global dominance. But in the past year Russian oil production has started to wane. Leonid Fedun, a top official at Lukoil, Russia's No. 2 oil producer, admitted back in April that national output had peaked and was unlikely to return to 2007 levels "in my lifetime" and that "the period of intense oil production [growth] is over." Without foreign money and expertise to extract offshore oil and prolong the lifespan of existing wells, Russian production will fall dramatically.

Russia's oil, in other words, acted as peacemaker. This seems paradoxical for it has sometimes been said that the Kremlin's attack on South Ossetia and Georgia was prompted by an ambition to seize control of local pipelines. But although this was an aggravating factor, it was not the primary cause because Russian leaders would have felt threatened -- reasonably or not -- by the presence of NATO in what they regard as their own backyard even if the region was not an energy hub. They were also reportedly eyeing Ukraine, which has no petroleum deposits of its own and poses no threat to the dominance of their giant energy company, Gazprom.

Oil can also act as a peacemaker and source of stability because many conflicts, in almost every part of the world, can threaten a disruption of supply and instantly send crude prices spiraling. Despite the recent price falls, the market is still vulnerable to sudden supply shocks, and a sharp increase would massively affect the wider global economy. This would have potentially disastrous social and political results, just as in the summer many countries, including France, Nepal and Indonesia, were rocked by violent protests at dramatic price increases in gasoline.

Haunted by the specter of higher oil prices at a time of such economic fragility, many governments have a very strong incentive to use diplomacy, not force, to resolve their own disputes, and to help heal other people's. This is true not just of oil consumers but producers, which would also be keen not to watch global demand stifled by such price spikes.

Consider the events of last fall, when the Ankara government was set to retaliate against the Iraq-based Kurdish guerrillas who had killed 17 Turkish soldiers and taken others prisoner in a cross-border raid on Oct. 21, 2007. Even the mere prospect of such an attack sent the price of a barrel surging to a then record high of \$85 because the markets knew that the insurgents could respond by damaging a key pipeline which moves 750,000 barrels of oil across Turkish territory every day.

Not surprisingly, the Bush administration pushed very hard to prevent a Turkish invasion of northern Iraq - State Department spokesman Sean McCormack aptly described the frenzy of diplomatic activity as a "full-court press" -- not just to avoid shattering the vestiges of Iraq's political structure but also to stabilize oil prices. In the end it was American pressure that averted a major incursion, allowing crude prices to quickly ease. And the Turks would also have been aware that any invasion could have prompted retaliatory damage on the oil pipeline, losing them vast transit fees.

In general, oil is such a vital commodity, for consumers, producers and intermediaries alike, that it represents a meeting point for all manner of different interests. Sometimes it offers an opportunity for competitors and rivals to resolve differences, as in March 1995, when Iranian President Akbar Hashemi Rafsanjani tried to break deadlock with Washington by offering a technically very demanding oil contract to Conoco. Today, the symbiotic energy requirements of Europe and Russia allows scope to improve mutual relations, not least if European governments act in unison to impose the rules of the European Union's energy charter on Moscow. Oil also gives consumers a chance to penalize, or tempt, international miscreants, just as U.S. sanctions are forcing the Tehran regime to reassess its cost-benefit analysis of building the bomb.

What cannot go unchallenged is a facile equation between oil on the one hand, and war, bloodshed and, in America's particular case, strategic vulnerability on the other. For oil, fortunately, can often be our guardian.

Roger Howard is the author of "The Oil Hunters: Exploration and Espionage in the Middle East, 1880-1939," published by Continuum.

19. IBM LANDS 'SMART GRID' ACCORDS

By Christine Burma
DJ

International Business Machines Corp. said it signed agreements with American Electric Power Co. and Consumers Energy Co. to help the companies modernize their electric grids.

IBM will provide technology, communications and other support services that will allow the utilities to implement "smart grid" programs, which enable customers to track their electricity use more closely and respond to market prices. Smart grids also help utilities operate their grids more reliably and accommodate new sources of power generation, such as renewable energy projects.

IBM will help AEP, of Columbus, Ohio, roll out its upgraded grid within the next three to five years, offering business consulting, software, research and other services. AEP's smart-grid program includes so-called advanced meters, which automatically collect customer usage data at regular intervals, allowing consumers to adjust their energy consumption according to price changes. The utilities collecting the data can make more-informed decisions about grid management.

Consumers Energy, a Jackson, Mich., utility subsidiary of CMS Energy Corp., will work with IBM to test an advanced metering pilot project, evaluating meter technologies from several vendors.

This month, IBM announced it is collaborating with French utility EDF to research smart-grid issues, including ways to manage the data generated by advanced meters.

20. LOW TEMPERATURE GEOTHERMAL POWER

Posted by Big Gav
TOD: Australia/New Zealand
November 29, 2008 - 12:01am

The ABC recently had a report on plans to power north-west Queensland with low temperature geothermal power using hot water from the Great Artesian Basin.

A Brisbane-based company says it could supply geothermal power to all of north-west Queensland. Clean Energy Australasia wants to build a \$50 million geothermal power station near Longreach. But it has now also revealed plans to build a pilot geothermal project near BHP's Cannington mine at McKinlay, south of Cloncurry. The company's Joe Reichman says the Mount Isa region needs about 500 megawatts of power a year and geothermal resources could easily provide that. "It'll change the region into a powerhouse," he said. Mr Reichman says the company has applied for federal and state government grants and has support from the major mining companies in the region. If the projects proceed they would be the first geothermal power plants in Australia.

Low temperature geothermal power is a relatively new (and very low profile) form of extracting energy from geothermal sources that provides yet another option for meeting our energy needs cleanly and sustainably.

Low Temperature Geothermal Power

When geothermal power is mentioned, people usually think of traditional high temperature geothermal power stations using water from volcanic areas, such as those found in Iceland, New Zealand, the US and elsewhere around the ring of fire.

More recently, interest in enhanced / engineered geothermal systems (EGS) - also known as hot dry rock (HDR) or hot fractured rock (HFR) geothermal power - has been high, with a number of experimental projects underway in Australia and Europe.

Low temperature geothermal power is also starting to attract significant interest, as lower temperature water resources are common in many countries (for example, waste hot water produced by oil and gas wells - in Texas alone, more than 12 billion barrels are produced, with oil companies usually re-injecting the waste water into the earth) and new technologies are beginning to appear that allow these resources to be developed commercially.

UTC Power has developed a low-cost Rankine cycle system that can convert temperatures as low as 195 °F (91 °C) into electricity. The technology is similar to a steam engine, with steam or hot water vaporizes a hydrofluorocarbon refrigerant that drives the turbine (it has been compared to a "refrigerator compressor running backwards").

Geothermal Power In The Great Artesian Basin

The Great Artesian Basin provides the only reliable source of water through much of inland Australia. The basin is the largest and deepest artesian basin in the world, covering a total of 1,711,000 square km. It underlies 23% of the continent, including most of Queensland, the south-east corner of the Northern Territory, the north-east part of South Australia, and northern New South Wales. The basin is 3000 metres (10,000 ft) deep in places and is estimated to contain 64,900 cubic kilometres of groundwater.

Most recharge water enters the rock formations from relatively high ground near the eastern edge of the basin (in Queensland and New South Wales) and very gradually flows towards the south and west. Because the sandstones are permeable, water gradually makes its way through the pores between the sand grains, flowing at a rate of one to five metres per year. Discharge water eventually exits through a number of springs and seeps, mostly in the southern part of the basin. It takes up to two million years for water to travel to the springs in the Lake Eyre area.

Temperatures of the artesian groundwater (which is generally of a very good quality) range from 30o to 100o C at the well heads. As the groundwater is too hot for town water supply and for stock to drink, it needs to be cooled down before consumption. That is why cooling towers can be seen throughout the region.

The ABC report's claim that the Longreach plant would be Australia's first geothermal power plant is incorrect.

A small (120 kW) power station (pdf) has been in operation at Birdsville in western Queensland since the early 1990's - one of the few low-temperature geothermal power stations in the world. The plant derives its energy from the near-boiling (98 degrees C) water taken from the Great Artesian Basin (at a depth of 1230m) that provides a water supply for the town. Operation of this geothermal power station reduced the town's diesel consumption by about 160,000 litres per year.

The Victorian town of Portland (in the Otway Basin) also operated a district heating scheme using water from geothermal sources for about 20 years, though this did not generate power.

Geothermal Power In The United States

The UTC plant has been trialled at the Chena Hot Springs in Alaska, with the first plant going online in July 2006. A second unit began operating later that year. Together, the two power units are contributing to the resort owner's goal of making Chena the first totally renewably powered and fueled community in the United States. The Chena experience is motivating other cities in Alaska, including Anchorage to investigate setting up larger scale geothermal plants.

UTC installed more production systems at another location in New Mexico in August this year.

Utah company Raser Technologies is looking to build a range of geothermal power plants throughout the western United States using Rankine cycle systems, with their first plant going live in Utah earlier this month.

Some oil fields also produce hot water which can be used to drive Rankine cycle power plants, with trials being performed in Wyoming.

Geothermal Power In Germany

Germany is interested in deriving significant amounts of energy from both EGS / HFR and low temperature geothermal sources. There are already four small geothermal power plants successfully operating in Germany, albeit supplying only a tiny amount of electricity.

The first geothermal plant to start operating in Germany is situated in Neustadt-Glewe in the north-eastern part of the country. The 230-kW combined electricity and heat power plant started up in 2003 and extracts water with a temperature of 97 °C from a well 2250 meters under the ground. It supplies 1,300 households with heat and a further 500 households with electricity.

Other plants now operating are the 3.5-MW plant at Unterhaching close to Munich, in Bavaria which is the first geothermal plant in Germany to use Kalina cycle technology. At that plant water is extracted at a temperature of 122 °C from a well 3,500 meters deep. Another 2.5-MW plant in Landau taps water of 150°C that is located 3,000 meters beneath the ground. Another 550-kW plant is due to go into operation in Bruchsal shortly, extracting water at temperatures of 128°C from a well 2500 meters deep.

More plants (as big as 8-10 MW) are due to go into operation in 2009-2010 in Sauerlach, Dürrnhaar, Riedstadt, Speyer, Gross Schoenebeck and Mauerstetten. By 2015 there could be more than a hundred plants operating - around 150 geothermal power plant projects are in the pipeline according to the German government. One major constraint on expanding the program has been shortages of drilling equipment.

Geothermal Power In New Zealand

While New Zealand already generates a significant portion of its power using traditional geothermal sources, the country is also conducting a NZ\$2.6 million research program into low temperature geothermal power.

Conclusion

Low temperature geothermal power has the advantage of being clean, continuously available energy that can be generated in a wide variety of locations.

Plants will likely to continue to be relatively small-scale, making it a classic distributed energy generation alternative (like biogas and solar PV), with growth probably remaining low profile for some time.

In the long run, I expect we'll see a useful and significant amount of our energy needs being produced using this technology.

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