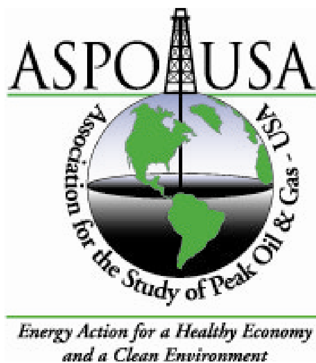

Peak Oil News

A Compilation of New Developments, Analysis, and Web Postings

Tom Whipple, Editor

Wednesday, December 03, 2008

Current Developments

1. OIL RISES SLIGHTLY AFTER PLUNGING TO 3-YEAR LOW

Pablo Gorondi
Associated Press Writer
December 3, 2008

Oil prices rose slightly Wednesday but remained near three-year lows as investors tried to gauge how much the slowdown in U.S. and Chinese economies will hurt demand for crude. By midday in Europe, light, sweet crude for January delivery was up 30 cents to $47.26 a barrel in electronic trading on the New York Mercantile Exchange. The contract fell $2.32 overnight to settle at $46.96 after touching $46.82, the lowest level since May 20, 2005, when it traded at $46.20. In London, January Brent crude rose 30 cents to $45.74 on the ICE Futures exchange. "The rallies we've seen have been false rallies, relief rallies," said Mark Pervan, senior commodity strategist with ANZ Bank in Melbourne. "The mood is overwhelmingly bearish at the moment."

2. OIL RISES FROM 3-YEAR LOW AS OPEC SIGNALS PLAN TO CUT SUPPLIES

By Christian Schmollinger and Grant Smith

Dec. 3 (Bloomberg) -- Crude oil rebounded from a three-year low on speculation OPEC will cut production further this month to check the collapse in prices. The Organization of Petroleum Exporting Countries intends to redice output when it meets on Dec. 17 in Algeria, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said today. The U.S. Energy Department releases its weekly report on fuel inventories later today. Gasoline purchases last week rose from the previous week by 1.7 percent, according to MasterCard Inc. "I'm very sure OPEC will cut on Dec. 17, it has to be at least 1 million barrels a day," said Hannes Loacker, an analyst at Raiffeisen Zentralbank Oesterreich in Vienna. "Prices are at a very low level, well below the marginal cost of supply, so I don't expect oil to drop too much." Crude oil for January delivery rose as much as $1.14, or 2.4 percent, to $48.10 a barrel in electronic trading on the New York Mercantile Exchange. The contract traded at $47.34 a barrel at 10 a.m. London time.

3. OPEC MAKES 66 PCT OF PLEDGED SUPPLY CUT-REUTERS SURVEY

By Alex Lawler

LONDON, Dec 2 (Reuters) - OPEC oil supply fell in November for a third consecutive month as members began to implement a deal to cut supplies in a bid to stem the slide in oil prices, a Reuters survey showed on Tuesday. The survey suggests the Organization of the Petroleum Exporting Countries met 66 percent of a pledge to lower output by 1.5 million barrels per day in November -- so far not enough to counter the slump in oil demand as the world economy slows. "OPEC definitely needs to do more," said Mike Wittner, oil analyst at Societe Generale. "What may look like enough of a cut now may turn out not to be once more data on the economy and oil demand come out. Demand seems to get weaker as we go on." Supply from OPEC fell to 31.2 million barrels per day in November from 32.17 million bpd in October, according to the survey of oil firms, OPEC officials and analysts. The 11 members bound by output targets pumped 28.07 million bpd, down from 29.06 million bpd in October. That represents 66 percent compliance with OPEC's pledge to lower supply by 1.5 million bpd from Nov. 1.

4. OIL WILL FALL FURTHER WITHOUT OPEC ACTION, SAYS BP

By Eduard Gismatullin

Dec. 2 (Bloomberg) -- Oil prices will continue to fall during the next 12 to 18 months if OPEC fails to implement “sufficient cuts” and supply stays at current levels, according to Christof Ruehl, the chief economist of BP Plc. The world economy will stage a recovery from recession in 18 to 24 months, followed by “possible spikes” in oil prices, Ruehl told a conference in London today. “Demand is now plunging like a rock,” he said. OPEC, the supplier of about 40 percent of the world’s oil, may cut output once or twice more in an attempt to reverse crude’s 66 percent retreat from July’s record, he said. The Organization of Petroleum Exporting Countries will reduce crude production when it meets later this month in Algeria, the group’s Secretary General Abdalla el-Badri said yesterday. Concerns that a slowing world economy will hurt demand for fuel has pushed oil prices down to a three-year low.

5. IRAQI OIL EXPORTS COULD FALL AMID MAINTENANCE PROBLEMS

By Spencer Swartz
Dow Jones

LONDON -- Iraqi oil exports could fall by as much as 13% next year as maintenance problems and labor shortages undermine the country's export capacity, a senior Iraqi oil official said. The development could further frustrate state spending on the country's redevelopment. The Iraqi government has already been forced to slash its 2009 budget by 16% from an original plan of $80 billion because of the collapse in crude prices since July. Fewer oil exports would deliver another blow to Iraqi oil revenue, which accounts for more than 90% of the country's federal budget. Mussab Hassan Al-Dujayli, head of crude marketing at Iraq's State Oil Marketing Organization, said he expects Iraq's crude exports next year to fall to a level of 1.65 million to 1.8 million barrels a day, down from an average of 1.8 million to 1.9 million barrels a day in 2008. "Exports will fall. We simply have maintenance problems that will not go away," Mr. Al-Dujayli said.

6. ISLAMIC FINANCE NO LONGER IMMUNE TO CRISIS

By Frederik Richter - Analysis
Wed Dec 3, 2008 4:35am EST

MANAMA (Reuters) - Islamic banking can no longer claim immunity from the global financial crisis now that it is hitting the industry's main source of funding and property values in the Gulf Arab region. The industry escaped the immediate fallout from the crisis as its ban on interest and its lack of structured products prevented it from investing in the assets that turned toxic for conventional banks. In a report issued last week debt rating agency Moody's said Islamic financial institutions in the Gulf showed strong resilience during the global financial turmoil, but that they are not risk-immune due to a shortage of liquid instruments and the lack of an Islamic interbank market. The ratings agency expects growth in Islamic banking assets to slow sharply in 2009, to around 10 to 15 percent from a range of 20 to 30 percent this year. Islamic banks now stand in the same firing line as their non-Islamic counterparts, facing a slump in equities valuations and a slump in Gulf real estate, to which they are heavily exposed.

7. ENI SUSPENDS EXPORT OBLIGATIONS FOR NIGERIA’S BRASS CRUDE OIL

By Alexander Kwiatkowski and Armorel Kenna

Dec. 3 (Bloomberg) -- Eni SpA, Italy’s largest oil company, suspended obligations on some Nigeria oil exports following a pipeline disruption, the company said today. Eni has declared “force majeure” on Brass River crude exports, according a Rome-based company official who declined to be identified. Force majeure is a legal clause that allows producers to miss contracted deliveries because of circumstances beyond their control. Eni’s share of lost production is between 15,000 and 18,000 barrels a day, according to the official, who could not specify how much other companies’ output has been reduced.

8. MEXICO HOPES RISKY PROJECT STABILIZES OIL FLOWS

By Robert Campbell
Reuters
Monday December 1 2008

MEXICO CITY, Dec 1 (Reuters) - Mexico's options for avoiding a dramatic decline in oil output are narrowing to a multibillion dollar gamble on the Chicontepec basin, where producing crude is so difficult it has been largely ignored since its discovery in the 1920s. Chicontepec, an onshore oil basin bigger than Luxembourg located in eastern Mexico, could hold more than 100 billion barrels of crude, but because of the area's fiendish geology only a fraction of this oil is believed to be recoverable. Mexico plans to spend $30 billion over the next 15 years at Chicontepec to help offset a sharp decline in output that threatens its status as the world's No. 6 oil producer. State oil company Pemex thinks it can access up to 12 billion barrels of crude at Chicontepec, almost as much as its current proven reserves, and sees the project as a stop-gap solution until hoped-for discoveries in the deep waters of the Gulf of Mexico can be brought online.

9. CHINA, INDIA LOOKING MORE `THIRD WORLD' AGAIN: WILLIAM PESEK

Commentary by William Pesek

Dec. 3 (Bloomberg) -- Investors in China and India might be excused for feeling a bit of whiplash these days. Three months ago, Asia's two nascent superpowers were said to be immune from the credit crisis gripping developed nations. More recently, their economic booms were supposed to stabilize global growth. Now, both countries are suddenly looking inward and fretting over the destabilizing effects of sluggish growth. It's a reminder that 2008 is the year of the contrarian. As it began and a global recession loomed, the so-called BRICs -- Brazil, Russia, India and China -- were supposed to save us. Let's hope Jim O'Neill, the Goldman Sachs Group Inc. economist who in 2001 coined the acronym, is right that the ``BRIC consumer is going to rescue the world.'' Yet India hasn't begun to count the fallout from its worst terrorist attack in 15 years. Prime Minister Manmohan Singh's decision this week to grab the finance portfolio from Palaniappan Chidambaram shows how concerned India is about its growth outlook. Singh is a respected economist. He opened India to foreign investors as finance minister in the 1990s. Yet won't he be busy enough trying to avoid hostilities with Pakistan, from where the Mumbai attackers reportedly may hail?

10. JAPANESE REFINERS EXTEND OUTPUT CUT ON FALLING DEMAND

By Yuji Okada

Dec. 3 (Bloomberg) -- Refiners in Japan, the world's third- largest oil consumer, are cutting output in December and probably in January to cope with bigger declines in fuel demand at home and abroad as the global economic slowdown worsens. Nippon Oil Corp. plans to cut processing this month by 18 percent from a year ago after slashing the run rate by 25 percent in November, Japan's largest refiner announced on Nov. 27. The company has operated at reduced rates since June. Idemitsu Kosan Co. and Showa Shell Sekiyu K.K. will also cut December production. Consumers and industrial users are delaying fuel purchases because they expect prices will drop in line with the declining trend of crude oil futures. Demand, already weak in Japan, has been damped further by the recession as many factories slash operating rates and shipping lines cut container services. "It is not just gasoline," Nippon Oil's Director Masahito Nakamura told reporters on Nov. 27. "Sales of industrial fuels such as fuel oil and gasoil are on the wane because of lower operating rates at plants and factories. We can't expect demand for industrial fuel to recover any time soon."

11. POWER STATIONS STARE AT ACUTE COAL SHORTAGE

Financial Express

The country is heading towards more power shortfall as coal-based power stations with generation capacity of over 70,000 mw are reeling under severe coal shortage. Of the 77 stations being monitored by the Central Electricity Authority (CEA), as on November 27, nearly 51 stations had coal stocks of less than seven days while 33 stations had stock of less than four days. According to the Central Electricity Authority's (CEA) report, so far 5.6 billion units have been lost by these power stations by October due to

unavailability of adequate coal. There are peaking shortages at the level of 14% while energy shortages are at 8%. There are indications that the crisis may escalate further also because of coal deficit. The ministry sources said the power ministry has asked generation utilities to import 25 million tonne in 2009-10 and accordingly place necessary orders in January. Railways and shipping authorities have been requested to make necessary arrangements for coal movement to coal-based power plants.

12. EAGC: JAPAN CONCERNED OVER RISING LNG PRICES

Uchenna Izundu
Oil & Gas Journal

LAKE COMO, ITALY, Dec. 2 -- High LNG prices will affect LNG demand in Japan because it would not be competitive against electricity, warned Tokyo Gas Co. Ltd. Senior Vice-Pres. of LNG Europe, Kentaro Morikawa, at the European Autumn Gas Conference (EAGC) at Lake Como, Italy. Morikawa said independence from oil prices was needed in the future if LNG was to be an alternative to oil. "Electricity is competitive against highly priced oil and gas," he said. "Electric power companies may cover the growth in demand by expanding nuclear power generation." He called for a price that will support both sellers' and buyers' sustainable growth. "There is a need for a price with less exposure to oil price fluctuation and to distinguish the discussion between long-term and spot pricing."

13. BIG THREE SEEK $34 BILLION AID

GM, Chrysler Warn of Collapse This Month as Lawmakers Explore Bankruptcy

By John D. Stoll, Matthew Dolan, Jeffrey Mccracken and Josh Mitchell
WSJ

Detroit's Big Three auto makers presented turnaround plans to Congress on Tuesday that indicate both General Motors Corp. and Chrysler LLC could collapse by the end of the month unless they get billions of dollars in emergency government loans. As part of a renewed bid for a bailout, GM said it needs an immediate injection of $4 billion to stay afloat until the end of the year, a fact it hadn't before disclosed. In total, the company said it needs $18 billion in loans -- $6 billion more than it said it would need just two weeks ago. Chrysler's 14-page summary of its presentation to Congress requests $7 billion, and it said it needs the funds by Dec. 31. Chrysler also wants $6 billion from a Department of Energy program aimed at promoting fuel-efficient vehicles. Ford Motor Co. seeks a $9 billion line of credit from the government, though it adds it may not need to tap it. In addition, Ford wants $5 billion from the Energy Department program. All three makers said they will consolidate operations and accelerate production of higher-mileage vehicles. In addition, GM and Ford plan to trim their brands.

14. CHEVRON MAY SELL REFINERIES AS DEMAND, MARGINS SHRINK

By Joe Carroll

Dec. 2 (Bloomberg) -- Chevron Corp., the world's fourth- largest oil company, may sell some refineries as recessions in the world's largest economies cut demand for gasoline and diesel, squeezing fuel-production margins. The San Ramon, California-based company wants to focus on higher-profit ventures such as natural-gas production offshore Australia and oil developments in the Gulf of Mexico and West Africa, John Watson, executive vice president of strategy and development, said today in a presentation to an energy conference in New York sponsored by Merrill Lynch & Co. Watson declined to say which, or how many, refineries may be sold. Chevron's refining profit fell 59 percent during the first nine months of 2008 as crude soared to a record and fuel prices failed to keep pace. The refining unit's contribution to total profit dwindled to 7.1 percent during the first three quarters of this year from 24 percent a year earlier.

15. SHELL DRILLS DEEPEST OFFSHORE WELL IN US GULF

NEW YORK (Dow Jones)--Royal Dutch Shell PLC (RDSB.LN) has drilled the deepest oil production well ever, at its Silvertip field in the Gulf of Mexico. The well, drilled 9,356 feet below the surface, is the deepest ever prepped for production, but not the deepest ever drilled. Chevron Corp. (CVX) drilled an exploratory well at more than 9,700 feet in 2002, also in the Gulf. BP PLC (BP) has also drilled an appraisal well in the Gulf at more than 9,500 feet, according to the U.S. Minerals Management Service, the federal agency that oversees offshore oil and gas activity. Neither well was ever intended to produce

oil, making Shell's Silvertip well the deepest of its kind. The deepest producing wells are currently in waters around 7,000 feet. The Silvertip well will connect to Shell's Perdido platform, which, moored in 8,000 feet of water, is itself the deepest of its kind. Perdido is located about 200 miles southeast of Houston, and will be capable of processing 130,000 barrels of oil equivalent a day. Shell owns a 35% operating stake in Perdido, while Chevron owns 37.5% and BP owns 27.5%. First production is scheduled around 2010.

16. EXXON'S TILLERSON GETS $4 MLN BONUS IN 2008, PAY HIKE

Tue Dec 2, 2008 3:31pm EST

HOUSTON, Dec 2 (Reuters) - The chief executive officer of U.S. oil major Exxon Mobil Corp (XOM.N: Quote, Profile, Research, Stock Buzz) was awarded a $4 million bonus in 2008 and will receive a 10 percent increase in his annual salary in 2009, according to a regulatory filing. Rex Tillerson, the chief of the world's largest publicy traded company, was also granted 225,000 shares of restricted stock, a filing with the U.S. Securities and Exchange Commission showed. As of Jan. 1, the executive's salary will be $2.06 million. Last year, Tillerson received a bonus of $3.4 million and his salary was $1.87 million. At that time, Tillerson was granted 185,000 shares of restricted stock.

17. GAS DRILLING THREATENS PUBLIC WITH UNDISCLOSED CHEMICALS

OMB Watch

The natural gas drilling industry refuses to disclose what potentially harmful chemicals are used in thousands of hydraulic fracturing gas wells across the country, despite evidence that the chemicals are poisoning drinking water supplies. As concerns mount, several states are considering action to curb use of the process despite the federal government's efforts to encourage it with large subsidies and environmental exemptions. During hydraulic fracturing, also known as "fracking," large amounts of sand and water are pumped at high pressure into a well. This causes small cracks and fissures to open deep in the layers of rock, releasing previously trapped molecules of natural gas. The mixture pumped deep into the ground usually contains a small proportion of chemicals included to reduce friction, prevent clogging of the fractures, and to prevent corrosion of machinery. These chemicals may end up in underground drinking water supplies, be spilled into surface waters, or evaporate as air pollution.

18. OIL SANDS PROJECTS MAY REDUCE FOWL POPULATION BY 166 MILLION

By Joe Carroll

Dec. 2 (Bloomberg) -- Energy companies harvesting oil from the Canadian tar sands may wipe out 6 million to 166 million warblers, sparrows and other birds during the next half century as strip mines, waste ponds and air pollution damage nesting grounds, according to a study to be released today. The threat to flocks and future generations of Blackpoll Warblers, Bohemian Waxwings and other North American birds should prompt the Canadian government to halt new oil-sands projects, the National Resources Defense Council said in the study. “Not only do many adult birds die when faced with lost and fragmented habitat and ponds of mining waste, but future generations of birds will have lost their chance to exist,” the study’s authors said. “Canada and the United States must protect migratory birds and bird habitat from this new form of high- impact energy development.” Exxon Mobil Corp.,Royal Dutch Shell Plc, Chevron Corp. and Suncor Energy Inc. are among the companies that will spend about C$80 billion ($64.6 billion) in the next five years to develop oil-soaked river valleys, bogs and forests near Fort McMurray, Alberta, home to the biggest crude reserves outside Saudi Arabia.

Discussion and Analysis

19. CHEAP OIL: SHORT-TERM GOOD, LONG-TERM DANGEROUS

By Christopher Johnson - Analysis
Wed Dec 3, 2008 5:57am EST

LONDON (Reuters) - Motorists must be glad the price of fuel is one thing they do not have to worry too much about as they face the worst recession since the 1930s, but cheap fuel is not good for anyone in the long run. Global oil prices have collapsed since July, losing two thirds of their value from a peak of almost $150 a barrel and dragging fuel costs to their lowest levels for several years. But while low energy costs come as welcome short-term relief to consumers and companies struggling with the financial and economic crisis, longer term they can be bad for everyone. Low energy prices squeeze investment in the oil industry, reducing future supplies. They discourage energy saving and they destabilize countries dependent on oil exports, making oil in the future more likely to be expensive and even more volatile. Perhaps most important of all, low energy prices stifle investment in alternative energy, deepening dependence on oil and other hydrocarbons and increasing greenhouse gas emissions.

20. DOES MR. O KNOW?

By Jim Kunstler

A lot of readers are twanging on me for refraining to castigate President-elect Obama for deeds yet undone. They're discouraged by the advisors and cabinet sectetaries he's picked, ostensibly because the crew coming in are Washington "insiders," meaning they can't possibly see or do things differently. My own starting point for this is the belief that in the years just ahead any sociopolitical entity organized at the giant scale will flounder -- this includes everything from the federal government to global corporations to factory farms to centralized high schools to national retail chains. So even expecting Mr. Obama's government to act effectively may be asking too much in a situation that will require mostly local action. The meta-situation will be the overall decline of energy resources and the necessary downscaling of our activities. We are obviously in a transitional period between the old profligate energy economy and the new economy of relative scarcity. We have no idea how disorderly this transition will be, but there is certainly potential for tremendous instability in daily life.

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1. OIL RISES SLIGHTLY AFTER PLUNGING TO 3-YEAR LOW

Pablo Gorondi
Associated Press Writer
December 3, 2008

Oil prices rose slightly Wednesday but remained near three-year lows as investors tried to gauge how much the slowdown in U.S. and Chinese economies will hurt demand for crude.

By midday in Europe, light, sweet crude for January delivery was up 30 cents to $47.26 a barrel in electronic trading on the New York Mercantile Exchange. The contract fell $2.32 overnight to settle at $46.96 after touching $46.82, the lowest level since May 20, 2005, when it traded at $46.20.

In London, January Brent crude rose 30 cents to $45.74 on the ICE Futures exchange.

"The rallies we've seen have been false rallies, relief rallies," said Mark Pervan, senior commodity strategist with ANZ Bank in Melbourne. "The mood is overwhelmingly bearish at the moment."

Investors have been discouraged by growing evidence that China's economy, the world's fourth largest, may slow more than previously expected. Property prices in China have plunged, leading analysts to expect a drop in construction, an important driver of Chinese growth.

"The gloomy economic outlook and the resulting sluggish demand picture remain one of the major reasons for the slump in oil prices," said a report by JBC Energy in Vienna, Austria.

The World Bank last week cut its 2009 Chinese growth forecast to 7.5 percent, the slowest in almost two decades.

"There are much clearer signs that China is slowing, and this has caused the recent leg down in prices," Pervan said. "The U.S. remains the major market, but the downturn in China is accelerating."

Oil prices have fallen about 68 percent since peaking at $147.27 in July.

A production cut by the Organization of Petroleum Exporting Countries in October failed to halt the slide in prices, and now the group is asking non-OPEC producers for help.

OPEC President Chakib Khelil said Tuesday oil producers such as Russia, Norway and Mexico should "express their solidarity" with OPEC, either by joining the cartel or by following its reductions of output quotas.

Russian officials have said they are preparing a cooperation agreement with OPEC that could be examined at the cartel's meeting this month in Algeria.

"If Russia cuts production, it gives a bearish signal because it shows Russia is clearly concerned about short-term weak demand," Pervan said. "Russia only reacts under major duress."

Markets will be following the release Wednesday and Friday of U.S. unemployment figures, as well as Thursday's expected interest rate cuts by the European Central Bank and the Bank of England for more clues about the direction of those economies.

"The rest of the week will remain volatile in global markets" as they react to the fresh economic data and the rate decisions, said Olivier Jakob of Petromatrix in Switzerland.

In other Nymex trading, gasoline futures fell 0.14 cent to $1.0542 a gallon. Heating oil gained 0.33 cent to $1.5865 a gallon while natural gas for January delivery slid 1.4 cents to 6.41 per 1,000 cubic feet.

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By Christian Schmollinger and Grant Smith

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The Organization of Petroleum Exporting Countries intends to redice output when it meets on Dec. 17 in Algeria, Qatar’s Oil Minister Abdullah bin Hamad al-Attiyah said today. The U.S. Energy Department releases its weekly report on fuel inventories later today. Gasoline purchases last week rose from the previous week by 1.7 percent, according to MasterCard Inc.

“I’m very sure OPEC will cut on Dec. 17, it has to be at least 1 million barrels a day,” said Hannes Loacker, an analyst at Raiffeisen Zentralbank Oesterreich in Vienna. “Prices are at a very low level, well below the marginal cost of supply, so I don’t expect oil to drop too much.”

Crude oil for January delivery rose as much as $1.14, or 2.4 percent, to $48.10 a barrel in electronic trading on the New York Mercantile Exchange. The contract traded at $47.34 a barrel at 10 a.m. London time.

Yesterday, futures fell $2.32, or 4.7 percent, to $46.96 a barrel, the lowest settlement since May 20, 2005. Oil has tumbled 68 percent from a record $147.27 a barrel reached on July 11 and is set to decline 50 percent this year, snapping six years of gains.

U.S. gasoline demand dropped 0.3 percent last week from a year earlier, the smallest decline since April, as motor fuel prices fell, MasterCard Inc. said in its SpendingPulse report.

OPEC ‘Definitely’ to Cut

OPEC, supplier of more than 40 percent of the world’s oil, will “definitely” cut output at its next meeting in Algeria on Dec. 17 after postponing a decision last month, Qatar’s al- Attiyah said in Dubai today.

He added that he doesn't know by how much the Organization of Petroleum Exporting Countries would reduce output. The group wants crude oil prices at between $70 and $80 a barrel "because this is the range at which you can invest."

The group deferred a decision to cut output at a meeting on Nov. 29 in Cairo. OPEC agreed on Oct. 24 to cut shipments by 1.5 million barrels a day.

OPEC Secretary General Abdalla el-Badri said Dec. 1 in Tehran that "for sure there will be action" at this month's summit.

U.S. Recession

The U.S. is facing its longest economic slump since World War II, said the National Bureau of Economic Research, a private non-profit group of economists based in Cambridge, Massachusetts.

"The demand isn't going to get any stronger in the near- term," said Toby Hassall, an analyst at Commodity Warrants Australia in Sydney. "We have to get a sense of how deep the recession is going to be in the U.S."

U.S. crude inventories probably gained for a 10th week as demand continues to plummet in the world's largest energy user, according to a Bloomberg survey before the Department of Energy releases its weekly report.

The report will likely show that crude-oil supplies rose 1 million barrels last week, according to the median of 13 responses in a Bloomberg News survey. It would be the 10th consecutive weekly gain. Stockpiles of gasoline and distillate fuel, a category that includes heating oil and diesel, also rose, according to the survey.

Brent crude oil for January settlement gained as much as $1.15, or 2.5 percent, to $46.59 a barrel on London's ICE Futures Europe exchange. It was at $46.06 a barrel at 9:27 a.m. London time. The contract declined $2.53, or 5.3 percent, to $45.44 a barrel yesterday, the lowest settlement since Feb. 15, 2005.

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3. OPEC MAKES 66 PCT OF PLEDGED SUPPLY CUT-REUTERS SURVEY

By Alex Lawler

LONDON, Dec 2 (Reuters) - OPEC oil supply fell in November for a third consecutive month as members began to implement a deal to cut supplies in a bid to stem the slide in oil prices, a Reuters survey showed on Tuesday.

The survey suggests the Organization of the Petroleum Exporting Countries met 66 percent of a pledge to lower output by 1.5 million barrels per day in November -- so far not enough to counter the slump in oil demand as the world economy slows.

"OPEC definitely needs to do more," said Mike Wittner, oil analyst at Societe Generale. "What may look like enough of a cut now may turn out not to be once more data on the economy and oil demand come out. Demand seems to get weaker as we go on."

Supply from OPEC fell to 31.2 million barrels per day in November from 32.17 million bpd in October, according to the survey of oil firms, OPEC officials and analysts.

The 11 members bound by output targets pumped 28.07 million bpd, down from 29.06 million bpd in October. That represents 66 percent compliance with OPEC's pledge to lower supply by 1.5 million bpd from Nov. 1.

Most of the cutback came from OPEC's Gulf members. Top exporter Saudi Arabia reduced output by almost 500,000 bpd, and Kuwait and the United Arab Emirates also curbed supplies.

The reduction from the UAE was partly due to field maintenance, according to officials at state oil company ADNOC, as well as voluntary cutbacks.

Even after the reduction, output remains above the target covering 11 OPEC members of 27.3 million bpd, the survey found.

OPEC, the source of about 40 percent of the world's oil, meets on Dec. 17 in Algeria to consider a further supply cut.

"DISAPPOINTING"

Oil fell after the survey was released as the rate of compliance was less than expected. U.S. crude was down about $1 a barrel at $48.25 as of 1645 GMT, having earlier hit a 3 1/2-year low.

"This lack of compliance is disappointing to the market and puts into doubt OPEC's indications that they will make more production cuts later this month," said Phil Flynn, analyst at Alaron Trading in Chicago.

OPEC officials meeting in Cairo at the weekend had said compliance with the supply curbs was 80 percent or more.

There was little sign of significant cutbacks from Iran and Venezuela, two OPEC members who are often among the first to support measures that will support oil prices.

OPEC at the informal talks in Cairo deferred a decision on whether to reduce supply further amid signs that Saudi Arabia and its Gulf neighbours wanted tighter compliance with the existing supply curbs. Libya barely reduced supply in November and new member Ecuador did not cut production at all, the survey found.

Higher supply elsewhere in the group in partly offset the declines.

Iraqi output rose slightly to 2.28 million bpd due to higher exports from the country's south. But a slowdown in exports towards the end of the month limited the increase.

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4. OIL WILL FALL FURTHER WITHOUT OPEC ACTION, SAYS BP

By Eduard Gismatullin

Dec. 2 (Bloomberg) -- Oil prices will continue to fall during the next 12 to 18 months if OPEC fails to implement “sufficient cuts” and supply stays at current levels, according to Christof Ruehl, the chief economist of BP Plc.

The world economy will stage a recovery from recession in 18 to 24 months, followed by “possible spikes” in oil prices, Ruehl told a conference in London today.

“Demand is now plunging like a rock,” he said. OPEC, the supplier of about 40 percent of the world’s oil, may cut output once or twice more in an attempt to reverse crude’s 66 percent retreat from July’s record, he said.

The Organization of Petroleum Exporting Countries will reduce crude production when it meets later this month in Algeria, the group’s Secretary General Abdalla el-Badri said yesterday. Concerns that a slowing world economy will hurt demand for fuel has pushed oil prices down to a three-year low.

Crude oil for January delivery fell $1.12, or 2.3 percent, to $48.16 a barrel at 11:43 a.m. on the New York Mercantile Exchange. Futures touched $47.36, the lowest since May 20, 2005.

BP, Europe's second-largest oil company, has so far stuck to its planned capital expenditure program, Ruehl said. The oil producer may scale back investment in future to maintain its dividend, which "is a priority," he said.

On Oct. 28, BP reiterated capital spending at around $21 billion to $22 billion for the year.

'Fair' Price

Saudi Arabia's King Abdullah and oil ministers from OPEC members Venezuela, Algeria, Nigeria and Iraq said last week an oil price of $75 a barrel would be a "fair" level that supports investment in new capacity.

BP's Ruehl disagreed with their views, saying: "There is no fair price. There is a price, which balances demand and supply."

Most OPEC nations' economies can sustain current oil prices, apart from three or four nations, Ruehl said. Countries that restricting access to their reserves should allow international oil companies to invest in production projects to meet demand for energy, Ruehl said.

"Most investment could take place in areas, which currently locked for private companies," Ruehl said. "If the purpose of the fair oil price is to allow investment there are easier ways of doing it, you just open up."

Oil and gas industry costs are falling because of the drop in commodity prices, Ruehl said. Service and equipment costs are bucking the trend because of contractual obligations.

"We will see costs diminishing as the commodity price cycle is turning," Ruehl said.

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5. IRAQI OIL EXPORTS COULD FALL AMID MAINTENANCE PROBLEMS

By Spencer Swartz
Dow Jones

LONDON -- Iraqi oil exports could fall by as much as 13% next year as maintenance problems and labor shortages undermine the country's export capacity, a senior Iraqi oil official said.

The development could further frustrate state spending on the country's redevelopment. The Iraqi government has already been forced to slash its 2009 budget by 16% from an original plan of $80 billion because of the collapse in crude prices since July.

Fewer oil exports would deliver another blow to Iraqi oil revenue, which accounts for more than 90% of the country's federal budget.

Mussab Hassan Al-Dujayli, head of crude marketing at Iraq's State Oil Marketing Organization, said he expects Iraq's crude exports next year to fall to a level of 1.65 million to 1.8 million barrels a day, down from an average of 1.8 million to 1.9 million barrels a day in 2008. "Exports will fall. We simply have maintenance problems that will not go away," Mr. Al-Dujayli said.

Iraq's oil-pumping capacity is also expected to fall to around 2.1 million barrels a day from 2.5 million barrels a day two years ago, Mr. Al-Dujayli said, noting that natural field declines at many of the country's aging fields were hurting Iraq's production outlook.

Mr. Al-Dujayli said Iraq's dilapidated oil sector can't replace old equipment at export and production facilities quickly enough and doesn't have enough qualified, skilled workers to improve the country's capacity.

He also noted that falling oil prices, down about 67% since a July peak of $147 a barrel, were reducing the government's ability to make new investments in Iraq's oil industry.

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6. ISLAMIC FINANCE NO LONGER IMMUNE TO CRISIS

By Frederik Richter - Analysis
Wed Dec 3, 2008 4:35am EST

MANAMA (Reuters) - Islamic banking can no longer claim immunity from the global financial crisis now that it is hitting the industry's main source of funding and property values in the Gulf Arab region.

The industry escaped the immediate fallout from the crisis as its ban on interest and its lack of structured products prevented it from investing in the assets that turned toxic for conventional banks.

In a report issued last week debt rating agency Moody's said Islamic financial institutions in the Gulf showed strong resilience during the global financial turmoil, but that they are not risk-immune due to a shortage of liquid instruments and the lack of an Islamic interbank market.

The ratings agency expects growth in Islamic banking assets to slow sharply in 2009, to around 10 to 15 percent from a range of 20 to 30 percent this year.

Islamic banks now stand in the same firing line as their non-Islamic counterparts, facing a slump in equities valuations and a slump in Gulf real estate, to which they are heavily exposed.

Even though Islamic banks avoided the speculative investments and complex financial instruments that derailed Western banks, their balance sheets still show a mismatch between assets and liabilities, and they depend more on short-term maturity liabilities than conventional banks.

At the end of 2007, only 10 percent of Gulf Arab Islamic banks' liabilities were bonds and other long-term liabilities, compared with 23 percent at conventional banks, according to McKinsey & Company.

"There is a need to diversify our funding sources, we still typically depend on retail deposits," said David Pace, chief financial officer at Bahrain-based Unicorn Investment Bank.

As liquidity has dried up in a region spoiled by high oil revenues, Islamic banks need to diversify their products and better manage the cash they have on their balance sheets.

Islamic hedging products, derivatives, liquidity- and risk-management tools are all in early stages of development.

"If derivatives are used to mitigate risks, they are viewed positively," said Muneer Khan, partner and head of Islamic banking at law firm Simmons & Simmons.

He said practitioners and scholars are increasingly open to more aggressive hedging structures.

These would be of particular importance for project finance, a key banking business in the Gulf Arab region that still has a large number of infrastructure projects in the pipeline.

But developing new products is an arduous process, as Islamic scholars need to approve their compliance with Islamic Sharia law, which is open for interpretation.

SOUL-SEARCHING

Just as the biggest financial crisis since the 1930s has hit banks worldwide, the industry is soul-searching in a key segment, Islamic bonds, or sukuk.

Sukuk issuance this year has dropped 60 percent from 2007, as a debate over whether some types of sukuks are compliant with Sharia law has added to the liquidity drain.

"It's not only looking up at new products, but looking back down at the roots of Islamic banking, at what is it that actually makes it different from conventional banking," said Richard Thomas, chairman of UK-based Islamic Gatehouse Bank.

Although the industry has been viewed as more crisis-proof due to the asset-backed nature of its transactions, that theory is increasingly being tested by economic and legal realities.

For example, the United Arab Emirates last week bailed out Islamic mortgage lenders Amlak and Tamweel.

There are also structural impediments.

Islamic property lenders under the ijara and diminishing mudaraba deal structures acquire formal ownership of the property serving as loan collateral and then lease it to the customer. While the ijara deal is a simple leasing structure, property ownership under the diminishing mudaraba deal is gradually transferred to the bank customer over a fixed period.

"Do you have a legal protection from the authorities (in an ijara deal) that in case of a default you simply go there and say, Mr. So and So, get out!', or do you still have to go through lengthy procedures to enforce the right (as with a conventional mortgage)?," said Jamal Abbas Zaidi, chief executive officer of the Islamic International Rating Agency.

"I have not seen this tested at any of my customers as yet. It has to be tested in the courts to see how it functions," he said.

Unicorn's Pace said that very few sukuks have actually reached maturity yet.

"It worries me that there's billions of dollars worth of sukuk, which are due to mature in the next 12 to 18 months. I have doubts about the ability of all borrowers to either repay those or to refinance them," he added. (Reporting by Frederik Richter; Editing by Thomas Atkins and Chris Wickham)

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7. ENI SUSPENDS EXPORT OBLIGATIONS FOR NIGERIA'S BRASS CRUDE OIL

By Alexander Kwiatkowski and Armorel Kenna

Dec. 3 (Bloomberg) -- Eni SpA, Italy's largest oil company, suspended obligations on some Nigeria oil exports following a pipeline disruption, the company said today.

Eni has declared “force majeure” on Brass River crude exports, according a Rome-based company official who declined to be identified. Force majeure is a legal clause that allows producers to miss contracted deliveries because of circumstances beyond their control.

Eni's share of lost production is between 15,000 and 18,000 barrels a day, according to the official, who could not specify how much other companies' output has been reduced.

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8. MEXICO HOPES RISKY PROJECT STABILIZES OIL FLOWS

By Robert Campbell
Reuters
Monday December 1 2008

MEXICO CITY, Dec 1 (Reuters) - Mexico's options for avoiding a dramatic decline in oil output are narrowing to a multibillion dollar gamble on the Chicontepec basin, where producing crude is so difficult it has been largely ignored since its discovery in the 1920s.

Chicontepec, an onshore oil basin bigger than Luxembourg located in eastern Mexico, could hold more than 100 billion barrels of crude, but because of the area's fiendish geology only a fraction of this oil is believed to be recoverable.

Mexico plans to spend $30 billion over the next 15 years at Chicontepec to help offset a sharp decline in output that threatens its status as the world's No. 6 oil producer.

State oil company Pemex thinks it can access up to 12 billion barrels of crude at Chicontepec, almost as much as its current proven reserves, and sees the project as a stop-gap solution until hoped-for discoveries in the deep waters of the Gulf of Mexico can be brought online.

But drilling efforts have so far been only marginally successful and there is widespread skepticism that the technology can be found to cheaply and quickly transform the area into a new giant oil-producing project.

As recently as 2002, Mexico forecast the 29 fields in the Chicontepec basin would pump nearly 1 million barrels per day by 2010. But after drilling more than 650 wells between 2002 and 2007, production today is only 35,000 bpd.

Pemex now aims to boost the basin's output by 75,000 bpd a year until it reaches 580,000 bpd in 2021.

Production costs are significantly higher at Chicontepec than other fields in Mexico because wells drilled there produce very little oil. The area's dense rock and small oil pockets impede the underground flow of crude, meaning many more wells are needed than at a similar-sized conventional oil field.

Chicontepec's wells typically produce only 100 to 150 bpd and much of the output dries up a few months after production starts, according to long-time Mexico oil analyst George Baker.

"It is an extremely challenging production situation. There is a lot of skepticism and until they find a technology that gets a better recovery rate you might as well count it out," said Baker, who runs a Mexican oil consultancy in Houston.

FEW OPTIONS

Pemex believes new technologies can be found to boost output and notes Mexico's recent energy reforms allow it to reward contractors who bring in new practices and technology.

Mexico's legacy of underinvestment in exploration has limited its options as it struggles to deal with the rapidly declining output of the offshore Cantarell field, Pemex's aging crown jewel and one of the world's largest oil deposits.

Cantarell is expected to produce only 700,000 bpd by the end of 2009, less than a third of its peak in 2004. Pemex has vowed to hold national output steady at 2.75 million bpd next year but analysts fear further declines.

"I think if they had anything else to try they would go there before Chicontepec. It is not going to be anything significant for years," said RoseAnne Franco of PFC Energy, which expects Mexican oil output to fall to 2.6 million bpd next year.

Pemex has awarded nearly $2.3 billion since mid-2007 in infrastructure and drilling contracts at Chicontepec to firms like Schlumberger, Fluor Corp, Mexico's ICA and driller Weatherford.

Last month, Pemex launched tenders for 68 well pads and 160 km of pipelines at Chicontepec as it gears up for a major spending push. It plans to seek bids on drilling packages totaling 2,500 wells in early 2009.

However, observers doubt Pemex has the project management capabilities to handle a project as big as Chicontepec. Pemex plans to drill 1,000 wells a year at Chicontepec, the same number drilled worldwide by Exxon Mobil Corp.

"Although it takes only between one and two weeks to drill a well in this area, the process from beginning to end takes 450 days," Eurasia Group analysts said in a research note.

"Only about half of proposed projects obtain the required permits, explaining why only about 180 wells have been drilled so far this year out of the planned 600." (Editing by Jim Marshall)

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9. CHINA, INDIA LOOKING MORE `THIRD WORLD' AGAIN: WILLIAM PESEK

Commentary by William Pesek

Dec. 3 (Bloomberg) -- Investors in China and India might be excused for feeling a bit of whiplash these days.

Three months ago, Asia's two nascent superpowers were said to be immune from the credit crisis gripping developed nations. More recently, their economic booms were supposed to stabilize global growth. Now, both countries are suddenly looking inward and fretting over the destabilizing effects of sluggish growth.

It's a reminder that 2008 is the year of the contrarian. As it began and a global recession loomed, the so-called BRICs -- Brazil, Russia, India and China -- were supposed to save us. Let's hope Jim O'Neill, the Goldman Sachs Group Inc. economist who in 2001 coined the acronym, is right that the ``BRIC consumer is going to rescue the world.''

Yet India hasn't begun to count the fallout from its worst terrorist attack in 15 years. Prime Minister Manmohan Singh's decision this week to grab the finance portfolio from Palaniappan Chidambaram shows how concerned India is about its growth outlook.

Singh is a respected economist. He opened India to foreign investors as finance minister in the 1990s. Yet won't he be busy enough trying to avoid hostilities with Pakistan, from where the Mumbai attackers reportedly may hail?

China is doing its best to show it's on top of things. Its efforts seem more like growing panic than steady policy making. The central bank cut its key interest rate by the most in 11 years last week, and the government said ``forceful'' measures were needed to arrest a faster-than-expected economic decline.

Spinning Growth

``China and India were touted as the saviors of world growth, but very quickly they're looking third world again, so investors are stampeding for the exit,'' says Simon Grose-Hodge, a strategist at LGT Group in Singapore.

You would think China's recent 4 trillion yuan ($586 billion) stimulus plan would fall into the forceful category. Yet Beijing's plans to spend a fifth of gross domestic product were more spin than reality. Much of it was a tally of existing efforts, and economists were quick to call China on it. Expect China to get far more serious.

There's no doubting China's importance, not with Merrill Lynch & Co. forecasting it will contribute 60 percent of the world's growth next year. Merrill's forecast of 1.5 percent global output next year is based on an 8.6 percent expansion in China. You probably can forget that as China slows.

Clueless Paulson

Economists such as Jim Walker of Asianomics Ltd. in Hong Kong are right that ``China is now at the heart of the global slowdown.'' Chinese officials must be miffed that their economic miracle is being interrupted by a crisis emanating from the U.S. That's the risk you run when you create what's essentially a one-trick economy.

China's mercantilist model leaves it dangerously dependent on U.S. consumers, now in the midst of a huge clampdown on spending. And China missed its chance to revalue its currency at a higher level to stimulate the domestic demand it lacks.

U.S. Treasury Secretary Henry Paulson looks clueless this week as he visits Beijing to push for a stronger yuan. China effectively said ``don't bother'' yesterday when it fixed the currency's daily reference rate at the lowest in five months. Paulson should save taxpayers money and cancel his trip. What's the point?

If Walker's prediction that China will grow 4 percent or less next year -- with a 30 percent chance of a contraction -- is even close to being right, the nation is in huge trouble. The world's most-populous country needs to grow closer to 10 percent to generate the jobs needed to contain social unrest.

Costs of Terror

In India, growth may drop to 6.5 percent in 2009, from 9 percent in the year ended in March 2008, according to CLSA Asia- Pacific Markets. If the global crisis worsens, that call might prove too optimistic.

Exports declined for the first time in seven years as recession in some of India's biggest markets, including the U.S., damped demand. Overseas shipments in October dropped 12.1 percent from a year earlier.

The global crisis is one thing. Exporters also worry about the fallout from the terrorist attacks in Mumbai that left 195 people dead. The concern is that the shockwaves will damage the business environment, inhibit foreign investment and depress tourism. What if companies in Japan, Germany and elsewhere recall India-based staff?

Whiplash 101

It's a reminder that geopolitics often trumps economics in Asia. Look no further than Thailand, where the Constitutional Court yesterday dissolved the ruling People Power Party and two coalition partners, forcing Prime Minister Somchai Wongsawat to step down. Protesters holding Bangkok's airports were thrilled. Investors were left wondering what it all means.

China and India boast incredible potential. At the moment, they are teaching investors a course in Economic Whiplash 101. One lesson is the risk of developed nations relying heavily on developing ones. Another is the folly of less-advanced economies thinking they can thrive as the biggest ones plunge. Our world is too interconnected for that.

The U.S. started this mess, yet Asia's shiniest growth stars may be among those paying the biggest price. The only real winners are likely to be neck-pain therapists.

(William Pesek is a Bloomberg News columnist. The opinions expressed are his own.)

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10. JAPANESE REFINERS EXTEND OUTPUT CUT ON FALLING DEMAND

By Yuji Okada

Dec. 3 (Bloomberg) -- Refiners in Japan, the world’s third- largest oil consumer, are cutting output in December and probably in January to cope with bigger declines in fuel demand at home and abroad as the global economic slowdown worsens.

Nippon Oil Corp. plans to cut processing this month by 18 percent from a year ago after slashing the run rate by 25 percent in November, Japan’s largest refiner announced on Nov. 27. The company has operated at reduced rates since June. Idemitsu Kosan Co. and Showa Shell Sekiyu K.K. will also cut December production.

Consumers and industrial users are delaying fuel purchases because they expect prices will drop in line with the declining trend of crude oil futures. Demand, already weak in Japan, has been damped further by the recession as many factories slash operating rates and shipping lines cut container services.

“It is not just gasoline,” Nippon Oil’s Director Masahito Nakamura told reporters on Nov. 27. “Sales of industrial fuels such as fuel oil and gasoil are on the wane because of lower operating rates at plants and factories. We can’t expect demand for industrial fuel to recover any time soon.”

Factory output fell 3.1 percent in October compared with the previous month, Japan’s Trade Ministry said on Nov. 28. Production will decline another 6.4 percent in November, the biggest drop since the survey began in 1973, and 2.9 percent in December, the ministry forecast.

Sluggish Demand

Nippon Oil’s fuel oil sales to power utilities fell about 10 percent in November from a year earlier, Nakamura said. Gasoline sales for the month were down about 7 percent. The sluggish demand forced the refiner to shut a 110,000 barrels-a-day crude distillation unit at its Mizushima refinery in western Japan in November. Nakamura expects the unit to remain shut indefinitely.

“We will have to consider another output cut for January if slow demand persists,” he said.

The possibility of another cut was echoed by Idemitsu president Akihiko Tembo, who said Japan’s second-biggest refiner is likely to reduce crude oil throughput in January. In the three months ending Dec. 31, Idemitsu will cut processing by 15 percent from a year earlier, down 1 percentage point from the original plan made in early September.

“Japanese refiners are making additional cuts to output because exports are not making as much money as before,” Tembo, who also heads the Petroleum Association of Japan, told reporters at its monthly press conference on Nov. 27.

Oil product exports, especially gasoil, had been a savior for Japanese refiners as robust demand from other countries such as China offset the decline in domestic sales.

Surplus Capacity

“Now that fuel demand is falling, both at home and overseas, Japanese refiners are required to reduce supply,” said Tetsu Emori, a fund manager in Tokyo with Astmax Ltd., Japan’s biggest commodities asset manager. “The options left for Japanese refiners are to reduce supply by cutting processing or scrapping refineries.”

Japan’s total refining capacity is 4.89 million barrels a day, according to the Petroleum Association of Japan. The trade ministry’s statistics show Japan processed 4.02 million barrels of crude oil a day in the year ended March, a 22 percent surplus capacity when industry expects oil product demand to fall further.

So far, only Nippon Oil has announced plans to scrap a refinery. The 60,000 barrels-a-day Toyama plant in central Japan will be closed by March 2009 to tackle shrinking demand, the company said in April.

Profit Margins

The profit margin for processing a barrel of Dubai Crude oil into Singapore 0.5 percent sulfur gasoil, the Asian benchmark, averaged $16.59 between Oct. 1 and Dec. 2, down from $37.56 for the quarter ended June 30 and $25.82 for the quarter ended Sept. 30, according to data compiled by Bloomberg. The margin, known as the crack spread, reflects gasoil demand in Asia.

“Gasoil is becoming more like an import product for Japanese refiners in December, rather than an export product,” said Daisuke Kawashima, a Tokyo-based gasoil trader at Hanwa Co. “The cut in production by Japanese refiners is helping to create room for imports.”

Nippon Oil's output of middle distillates, which include gasoil and kerosene, fell 16 percent to 2.04 million kiloliters in November compared with the previous year because of slow domestic sales and fewer exports. The company plans to refine 14 percent less middle distillates from a year ago in December.

"The grade of crude oil we process now is heavier than usual for this time of year because of sluggish demand for light products," Nippon Oil's Nakamura said, declining to elaborate.

In the lead up to winter, Japanese refiners typically process more expensive lighter grades of crude, which yield lighter products including kerosene, when demand for the heating oil peaks.

The trend toward heavier crude has affected the price spread between Saudi Arabian Extra Light crude oil and Heavy grade. The differential dropped to $6.20 a barrel for November loading from $14.05 a barrel for July loading cargoes.

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11. POWER STATIONS STARE AT ACUTE COAL SHORTAGE

Financial Express

The country is heading towards more power shortfall as coal-based power stations with generation capacity of over 70,000 mw are reeling under severe coal shortage. Of the 77 stations being monitored by the Central Electricity Authority (CEA), as on November 27, nearly 51 stations had coal stocks of less than seven days while 33 stations had stock of less than four days. According to the Central Electricity Authority's (CEA) report, so far 5.6 billion units have been lost by these power stations by October due to unavailability of adequate coal. There are peaking shortages at the level of 14% while energy shortages are at 8%. There are indications that the crisis may escalate further also because of coal deficit.

The ministry sources said the power ministry has asked generation utilities to import 25 million tonne in 2009-10 and accordingly place necessary orders in January. Railways and shipping authorities have been requested to make necessary arrangements for coal movement to coal-based power plants.

The power ministry sources told FE, "A high-level meeting recently took place at the Planning Commission. The coal ministry informed that Coal India and its subsidiaries have been asked to increase their coal production by 6 million tonne from the original estimate of 313 million tonne for 2008-09. Besides, Coal India proposes to import 4 million tonne of coal to overcome coal shortage in the country. The coal ministry hopes that the situation will improve in next six months."

However, sources said the ministry also cited that generation utilities have also failed to implement their plans to import coal and it has further added fuel to the problem.

Former power secretary RV Shahi said, "The problem of coal shortages faced by various plants can be tackled by increasing coal production by CIL and its subsidiaries and importing coal. During my tenure power and coal secretaries laid emphasis on the weekly monitoring of coal supply situation.

Besides, generation utilities were given a timely schedule of coal import though some of them were reluctant to import."

According to CEA, some of the power plants with supercritical and critical coal shortages include 3,000 mw Talcher (one day), 470 mw another unit in Talcher (2 days), 1,600 mw Farakka plant (one day), 1,000 mw Simhadri (three days), 1,360 mw Panipat project (one day), 1,250 mw Suratgarh (one day), 2,000 mw Rihand (one day), 2,000 MW Singrauli (one day), 1050 mw Unchahar (two days), 390 mw Torrent Power AEC (one day), 3,260 mw Vindhyachal (one day).

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12. EAGC: JAPAN CONCERNED OVER RISING LNG PRICES

Uchenna Izundu

Oil & Gas Journal

LAKE COMO, ITALY, Dec. 2 -- High LNG prices will affect LNG demand in Japan because it would not be competitive against electricity, warned Tokyo Gas Co. Ltd. Senior Vice-Pres. of LNG Europe, Kentaro Morikawa, at the European Autumn Gas Conference (EAGC) at Lake Como, Italy.

Morikawa said independence from oil prices was needed in the future if LNG was to be an alternative to oil. "Electricity is competitive against highly priced oil and gas," he said. "Electric power companies may cover the growth in demand by expanding nuclear power generation."

He called for a price that will support both sellers' and buyers' sustainable growth. "There is a need for a price with less exposure to oil price fluctuation and to distinguish the discussion between long-term and spot pricing."

As one of the world's largest customers of LNG, Japan has paid premium prices to ensure supply diversity because its geographic location makes it difficult to import pipeline gas. Several export projects such as Pluto LNG, Sakhalin-2, Tannguh LNG, and Greater Sunrise, have been proposed, but these are facing rising construction costs, limited capacity, a scarcity of feed gas, and host countries' revising commercial conditions. Operators have been hesitant to sanction LNG projects, and Japan faces a shortage of new LNG supplies coming on stream in Asia-Pacific in the medium term.

Morikawa stressed that Japan was happy to be a foundation LNG customer, and that it is critical to have a strong relationships with sellers based on trust.

However, increasing domestic gas demand in Indonesia, Malaysia, and Thailand is another issue for potential LNG exporters, said Edward Chow, Senior Fellow at the Center for Strategic and International Studies. "China and India have increasing [gas] demand, but they are more price sensitive." By 2030, he added, gas demand in Asia will grow, with demand in OECD Europe and the US trailing behind.

China, India challenges
The emergence of China and India as potential LNG importers is another driver in the development of the Asian LNG market. India has expressed interest in building regasification capacity, but discoveries of large gas fields, Dhirubhai and Deen Dayal, on its east coast will affect how much LNG imports are required.

China wants to increase gas usage for environmental reasons, Chow said, as the government is concerned about the health problems of its people. Several LNG terminals have been proposed in China, but Morikawa questioned whether they would come to fruition. "The difference between domestic market prices and LNG prices cannot be covered by subsidies," he said. "Will end users not be able to pay high prices?"

China also is pursuing pipeline import options from Russia and Central Asia, and it remains to be seen whether the country will return to a coal-based energy policy as geopolitics and competition for gas supplies intensify.

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13. BIG THREE SEEK $34 BILLION AID
GM, Chrysler Warn of Collapse This Month as Lawmakers Explore Bankruptcy

By John D. Stoll, Matthew Dolan, Jeffrey Mccracken and Josh Mitchell
WSJ

Detroit's Big Three auto makers presented turnaround plans to Congress on Tuesday that indicate both General Motors Corp. and Chrysler LLC could collapse by the end of the month unless they get billions of dollars in emergency government loans.

As part of a renewed bid for a bailout, GM said it needs an immediate injection of $4 billion to stay afloat until the end of the year, a fact it hadn't before disclosed. In total, the company said it needs $18 billion in loans -- $6 billion more than it said it would need just two weeks ago.

Chrysler's 14-page summary of its presentation to Congress requests $7 billion, and it said it needs the funds by Dec. 31. Chrysler also wants $6 billion from a Department of Energy program aimed at promoting fuel-efficient vehicles.

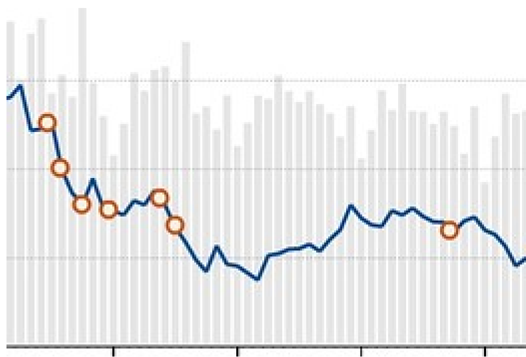
Ford Motor Co. seeks a $9 billion line of credit from the government, though it adds it may not need to tap it. In addition, Ford wants $5 billion from the Energy Department program.

All three makers said they will consolidate operations and accelerate production of higher-mileage vehicles. In addition, GM and Ford plan to trim their brands.

The urgent call for help comes as lawmakers have begun reaching out to Wall Street experts to explore how the government could help the companies prepare bankruptcy filings that would take them in and out of Chapter 11 protection quickly, with much of the financing and other restructuring measures worked out with creditors in advance, people familiar with the matter said.

Skidding Auto Makers

View Interactive



See what Ford, GM have been up to in recent years as their stock price and sales declined.

In the past several days, congressional representatives have met with bankers and bankruptcy experts to discuss the possibility of a so-called prearranged bankruptcy for either GM or Chrysler, these people said.

One idea that emerged from the talks would have the U.S. government put up as much as $40 billion to fund reorganizations under bankruptcy for GM and Chrysler, these people said.

Both companies have said they don't see bankruptcy as a viable option for any auto maker. They believe customers would stop buying cars and the company would be forced to liquidate.

But bankers and other financial experts are telling lawmakers that bankruptcy is the best option for creating smaller but viable U.S. car companies.

Detroit in Crisis

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"I think GM is eminently re-organizable," said Durc Savini, managing director at Miller Buckfire & Co., a New York investment banking firm that advised on the bankruptcies at auto suppliers Dana Corp. and Dura Automotive Inc. He said he recently talked with staff members for three House and Senate members to discuss a bankruptcy at one or all of the Detroit makers.

Mr. Savini said he told the staffers a bankruptcy could work, but would likely require government money and concessions from workers, vendors, management and debtholders.

In a conference call with reporters, GM President Frederick "Fritz" Henderson said bankruptcy is not a viable option and the company is focusing solely on securing help from Washington. "There is not a Plan B," he said.

The United Auto Workers union is expressing a different view. At a meeting Tuesday in Detroit, top UAW officials told worker representatives that GM could be forced into a Chapter 11 filing before Christmas if the company fails to get government funding in coming days, people familiar with the matter said.

The three companies presented their requests for help as they were hit by another batch of bad news. U.S. new-vehicle sales fell 37% in November to 746,789, according to Autodata Inc. It was the first time in decades that monthly sales fell below 800,000. The closely watched seasonally adjusted annualized sales rate was 10.18 million vehicles, a worse-than-expected drop from October's 10.8 million

GM's sales fell 41%, Ford's 30% and Chrysler's 47%. Foreign auto makers were hit hard, too. Toyota Motor Corp.'s U.S. sales fell 34% and Honda Motor Co.'s 31%.

GM 'Bares Its Soul' for Bailout

3:33

In seeking money from Congress, GM acknowledged its mistakes and candidly explained how close they are to collapse. WSJ's Jeff McCracken and Dennis Berman discuss GM's bailout request. (Dec. 2)

The Big Three last month appealed to Congress for $25 billion in low-cost loans to carry them through the downturn in the economy and one of the worst auto sales slumps in decades. But lawmakers were unconvinced that the three had clear restructuring plans to return to profitability and told them to come back by Dec. 2 with more details on how they would use taxpayer funds to "become viable."

House Speaker Nancy Pelosi (D., Calif.) said Tuesday she hoped to help the industry, but suggested much will depend on the assessments made of the industry plans. "We want to see a commitment to the future," she said. "We want to see a restructuring of their approach, that they have a new business model, a new business plan."

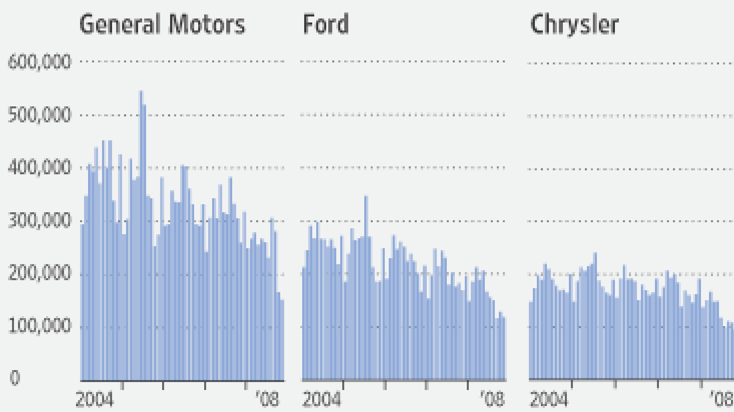
Ford's 'One Plan'

- Aggressively restructure to operate profitably at the current demand and changing model mix
- Accelerate development of new products customers want and value
- Finance the plan and improve balance sheet

In what could be a boost to Detroit's hopes, Ms. Pelosi said bankruptcy isn't an option for the companies because such reorganization would take too long. Senate Majority Leader Harry Reid (D., Nev.) said that if Democrats decided to proceed with a bailout, legislation could come as soon as Monday.

In its 33-page presentation, Ford said it doesn't need federal funds immediately but asked for the $9 billion credit line in case the recession is longer and deeper than expected. It estimated it will break even or return to profitability by 2011 and added it would accelerate the development of hybrid and battery-powered vehicles, cut the number of dealers selling its products, and retool plants to make small cars in the U.S. it can sell profitably.

In a phone interview while riding in a Ford Escape hybrid to Washington, where the chief executives of the Big Three will testify starting Thursday, Ford CEO Alan Mulally suggested the UAW may have to make concessions to help the companies recover and persuade Congress to approve aid. "All of the elements" of the UAW labor contract should be re-examined to keep the U.S. auto industry competitive, he said.



Ford appears to be in better shape than GM and Chrysler, in large part because it mortgaged almost all of its assets in 2006 to raise $24.5 billion.

In the document it submitted to Congress, Chrysler, controlled by private-equity firm Cerberus Capital Management LP, said it is on track to end the year with just $2.5 billion in cash, and that it is due to pay out $11.6 billion for parts, wages, and other costs between Jan. 1 and March 31. It seeks a "bridge loan" of $7 billion to "ensure the long-term viability of the company."

In a concession to receive the loan, Cerberus will tell Congress it is willing to convert its debt in Chrysler to equity, said an executive familiar with its thinking.

In his testimony this week, Chrysler CEO Robert Nardelli plans to call on the auto makers and federal government to create "an independent joint venture" to develop improved energy technology, such as batteries for electric and hybrid vehicles, a Chrysler executive said.

In GM's conference call Tuesday, Mr. Henderson said GM is seeking $12 billion in loans and an additional credit line of $6 billion.

In return, GM would be open to giving taxpayers warrants for company stock, a senior position among its creditors, and a promise to pay the money back around 2012. Mr. Henderson said GM believes its North American operations can break even by that year.

GM plans to begin discussions this week with bondholders and the UAW in an attempt to cut its debt by $30 billion, or by about half. It will ask investors to swap debt for equity, and aim to restructure GM's obligations to a UAW health-care trust set to begin paying retiree benefits in 2010.

GM told Congress it is considering selling its Saab and Saturn divisions, and may trim its lineup to about 40 models from 60.

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14. CHEVRON MAY SELL REFINERIES AS DEMAND, MARGINS SHRINK

By Joe Carroll

Dec. 2 (Bloomberg) -- Chevron Corp., the world’s fourth- largest oil company, may sell some refineries as recessions in the world’s largest economies cut demand for gasoline and diesel, squeezing fuel-production margins.

The San Ramon, California-based company wants to focus on higher-profit ventures such as natural-gas production offshore Australia and oil developments in the Gulf of Mexico and West Africa, John Watson, executive vice president of strategy and development, said today in a presentation to an energy conference in New York sponsored by Merrill Lynch & Co.

Watson declined to say which, or how many, refineries may be sold. Chevron's refining profit fell 59 percent during the first nine months of 2008 as crude soared to a record and fuel prices failed to keep pace. The refining unit's contribution to total profit dwindled to 7.1 percent during the first three quarters of this year from 24 percent a year earlier.

"It's shaping up to be a difficult year for the refining business," said Watson, formerly chief of Chevron's international exploration business. "The margin environment has been relatively weak."

Chevron operates or owns stakes in 18 plants that can process 2.94 million barrels of crude a day. The company's last refinery-related divestiture was in 2007, when it sold a 50 percent stake in a Netherlands plant to London-based BP Plc for $900 million.

EnCana, Husky Investments

Oil producers such as Calgary-based EnCana Corp. and Hong Kong billionaire Li Ka-shing's Husky Energy Inc. have been investing in refineries to handle increasing crude production in Canada's tar sands.

EnCana agreed to pay more than $2 billion two years ago for stakes in ConocoPhillips's plants in Illinois and Texas. Husky acquired a Valero Energy Corp. refinery in Ohio last year for $1.9 billion.

The spread between U.S. fuel prices and the cost of crude shrank 57 percent this year, based on benchmark gasoline, heating-oil and oil futures traded in New York.

Chevron plans to continue divesting filling stations and retail fuel-distribution networks in low-profit markets, Watson said. Shedding those businesses will cut annual operating costs by $700 million, he said.

In the past two years, Chevron exited retail fuel markets in Norway, the Philippines, Uruguay, the Netherlands, Kenya, the U.K. and Nigeria.

'Refining Rationalization'

"Our refining rationalization has been somewhat more limited" than sales of retail outlets, Watson said. In refining, "there are some possibilities but I'm not going to speculate on what they could be today."

Chevron rose $3.52 to $75.54 in New York Stock Exchange composite trading. The shares declined 19 percent this year, the second-best performance in the 13-company Amex Oil Index. Exxon Mobil Corp., the top performer, shed 17 percent.

U.S. stock swings will be more than triple the average over the next seven months as investors contend with a global recession and the worst returns since the 1930s, volatility futures show. The U.S. economy entered a recession last December, the National Bureau of Economic Research's panel said yesterday.

Exxon Mobil of Irving, Texas, is the world's largest oil company by market value, followed by Beijing-based PetroChina Co. and Royal Dutch Shell Plc, according to data compiled by Bloomberg.

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15. SHELL DRILLS DEEPEST OFFSHORE WELL IN US GULF

NEW YORK (Dow Jones)--Royal Dutch Shell PLC (RDSB.LN) has drilled the deepest oil production well ever, at its Silvertip field in the Gulf of Mexico.

The well, drilled 9,356 feet below the surface, is the deepest ever prepped for production, but not the deepest ever drilled. Chevron Corp. (CVX) drilled an exploratory well at more than 9,700 feet in 2002, also in the Gulf. BP PLC (BP) has also drilled an appraisal well in the Gulf at more than 9,500 feet, according to the U.S. Minerals Management Service, the federal agency that oversees offshore oil and gas activity.

Neither well was ever intended to produce oil, making Shell's Silvertip well the deepest of its kind.

The deepest producing wells are currently in waters around 7,000 feet. The Silvertip well will connect to Shell's Perdido platform, which, moored in 8,000 feet of water, is itself the deepest of its kind. Perdido is located about 200 miles southeast of Houston, and will be capable of processing 130,000 barrels of oil equivalent a day. Shell owns a 35% operating stake in Perdido, while Chevron owns 37.5% and BP owns 27.5%. First production is scheduled around 2010.

Both the well's and the platform's record claims are almost certain to prove fleeting, however. Shell plans to drill a nearby production well at 9,627 feet, while Brazilian state-operated Petroleo Brasileiro S.A. (PBR) is building a floating production facility that will sit in at least 8,200 feet of water at its Chinook field in the Gulf.

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16. EXXON'S TILLERSON GETS $4 MLN BONUS IN 2008, PAY HIKE

Tue Dec 2, 2008 3:31pm EST

HOUSTON, Dec 2 (Reuters) - The chief executive officer of U.S. oil major Exxon Mobil Corp (XOM.N: Quote, Profile, Research, Stock Buzz) was awarded a $4 million bonus in 2008 and will receive a 10 percent increase in his annual salary in 2009, according to a regulatory filing.

Rex Tillerson, the chief of the world's largest publicy traded company, was also granted 225,000 shares of restricted stock, a filing with the U.S. Securities and Exchange Commission showed.

As of Jan. 1, the executive's salary will be $2.06 million.

Last year, Tillerson received a bonus of $3.4 million and his salary was $1.87 million. At that time, Tillerson was granted 185,000 shares of restricted stock.

Shares of Exxon climbed 3.4 percent to $76.81 in late trading on the New York Stock Exchange. So far this year, the stock has fallen about 18 percent, outperforming an 39 percent drop in the Chicago Board Options .OIX index of oil companies. (Reporting by Anna Driver in Houston; Editing by Bernard Orr)

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17. GAS DRILLING THREATENS PUBLIC WITH UNDISCLOSED CHEMICALS

OMB Watch

The natural gas drilling industry refuses to disclose what potentially harmful chemicals are used in thousands of hydraulic fracturing gas wells across the country, despite evidence that the chemicals are poisoning drinking water supplies. As concerns mount, several states are considering action to curb use of the process despite the federal government's efforts to encourage it with large subsidies and environmental exemptions.

During hydraulic fracturing, also known as "fracking," large amounts of sand and water are pumped at high pressure into a well. This causes small cracks and fissures to open deep in the layers of rock, releasing previously trapped molecules of natural gas. The mixture pumped deep into the ground usually contains a small proportion of chemicals included to reduce friction, prevent clogging of the fractures, and to prevent corrosion of machinery. These chemicals may end up in underground drinking water supplies, be spilled into surface waters, or evaporate as air pollution.

A recent investigation of hydraulic fracturing by ProPublica revealed documented cases of water contamination and other hazardous events resulting from the drilling process in several states. Drilling companies have consistently maintained that the procedure is safe, referring to a 2004 U.S. Environmental Protection Agency (EPA) study that found no risks to drinking water. However, ProPublica discovered several problems with EPA's conclusions, including statements within the report that fluids migrated unpredictably and to greater distances than previously thought, which were left out of the conclusions. Additionally, ProPublica noted that agency documents appear to indicate that EPA negotiated directly with the gas industry before finalizing its report conclusions.

Among the reports of damage to environmental and public health resulting from hydraulic fracturing are more than 1,000 cases of documented water contamination in Colorado, New Mexico, Alabama, Ohio, and Pennsylvania. In addition to contamination from the below-ground drilling, leaks and spills from trucks and waste pits are also causing problems. Tracking the contamination is especially difficult because drillers refuse to disclose the chemicals being used. Despite the secrecy, some information on the chemical mixture has been pieced together. Among the identified chemicals are volatile organic compounds (VOCs) such as benzene, toluene, ethyl benzene, and xylene.

According to a chemical analysis by the Environmental Working Group and The Endocrine Disruption Exchange (TEDX), a Colorado research organization, of the more than 300 suspected hydraulic fracturing chemicals used in Colorado, at least 65 are federally listed hazardous substances, and little is known about the rest. Despite the risks associated with the 65 hazardous chemicals, the drilling operations are exempt from environmental reporting requirements and use of the chemicals is not controlled. The drilling industries are exempt from numerous environmental regulations — and the accompanying reporting requirements and public scrutiny — authorized by such laws as the Clean Water Act, the Clean Air Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation, and Liability Act (Superfund), and the Safe Drinking Water Act (SDWA). Reps. Diana DeGette (D-CO), John Salazar (D-CO), and Maurice Hinchey (D-NY) introduced legislation, H.R. 7231, on Sept. 29 to remove the SDWA exemption originally created by the 2005 Energy Policy Act. The legislation is expected to be reintroduced in 2009.

The health risks from fracking chemicals was made clear in the summer of 2008 when a Colorado nurse almost died from exposure while treating a gas field worker whose clothing had been doused with the chemicals. Despite the nurse suffering from heart, lung, and liver failure, plus kidney damage and blurred vision, the drilling company refused to reveal to her doctors the "proprietary" chemicals used in hydraulic fracturing. While the nurse eventually recovered, she was never told to what she had been exposed.

For Colorado health officials, the chemical exemptions, regulatory loopholes, and missing data are a cause for concern. "We are just working in the dark," says Dr. Martha Rudolph, director of environmental programs for the Colorado Department of Public Health and Environment in a report for Newsweek. "We don't know the impact on the potential health on humans might be. We need to."

Claiming that the specific chemicals used in the drilling process are confidential business information and that disclosure would threaten their "competitive advantage" over competing firms, drilling companies have managed to operate wells nationwide without revealing what chemicals they are using. Halliburton, the oil and gas services firm and a pioneer of hydraulic fracturing, has threatened to pull its affected operations out of Colorado if it is forced by the state to disclose the chemicals it is using.

A major expansion of natural gas drilling is being planned for upstate New York within the region supplying New York City's water. However, New York City and state officials have asked the state Department of Environmental Conservation (DEC) to ban all gas drilling in the city's watershed, which overlaps the Marcellus Shale, a geologic region of high natural gas potential underneath New York, Pennsylvania, and West Virginia, until further studies on its impact can be done. The Marcellus Shale is estimated to contain enough natural gas to fuel the country's gas needs for fourteen years.

There has been a dramatic expansion of gas and oil drilling across the United States during the last eight years. The Bush administration has allowed more oil and gas drilling on western public lands than any administration in at least 25 years, and fracking is used in nine out of ten of these natural gas wells. Not only has the government allowed fracking to occur with lax oversight and regulatory exemptions, the

government has also actively encouraged oil and gas companies with significant federal subsidies for exploration and drilling, including fracking. An analysis by Friends of the Earth released in July found that oil and gas companies would receive more than $32.9 billion in different subsidies over the next five years, including seven new provisions that were included in the Energy Policy Act of 2005 (PL 109-58). A report released by Taxpayers for Common Sense (TCS) on Nov. 14 details those seven new provisions, calculating they will cost taxpayers $2.3 billion through 2015.

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18. OIL SANDS PROJECTS MAY REDUCE FOWL POPULATION BY 166 MILLION

By Joe Carroll

Dec. 2 (Bloomberg) -- Energy companies harvesting oil from the Canadian tar sands may wipe out 6 million to 166 million warblers, sparrows and other birds during the next half century as strip mines, waste ponds and air pollution damage nesting grounds, according to a study to be released today.

The threat to flocks and future generations of Blackpoll Warblers, Bohemian Waxwings and other North American birds should prompt the Canadian government to halt new oil-sands projects, the National Resources Defense Council said in the study.

“Not only do many adult birds die when faced with lost and fragmented habitat and ponds of mining waste, but future generations of birds will have lost their chance to exist,” the study’s authors said. “Canada and the United States must protect migratory birds and bird habitat from this new form of high-impact energy development.”

Exxon Mobil Corp.,Royal Dutch Shell Plc, Chevron Corp. and Suncor Energy Inc. are among the companies that will spend about C$80 billion ($64.6 billion) in the next five years to develop oil-soaked river valleys, bogs and forests near Fort McMurray, Alberta, home to the biggest crude reserves outside Saudi Arabia.

Plans to coax thick crude known as bitumen from deep wells with steam may be more destructive to bird habitats than the open-pit mines that already dot the landscape around the Athabasca River in northern Alberta, the study said. Diverting water supplies from rivers and underground reservoirs to bitumen-processing plants may also harm forests crucial to nesting and migration, the study found.

Gearing Up

Refiners such as Houston-based ConocoPhillips and Canada’s Husky Energy Inc. are modifying plants in the U.S. Midwest to handle increasing amounts of oil-sands crude as output ramps up in coming years.

The study was partly funded by the Rockefeller Brothers Fund, a New York-based philanthropic group whose leadership unsuccessfully tried in May to force Exxon Mobil to increase investments in petroleum alternatives and slash greenhouse-gas emissions from its refineries.

The 68-year-old fund was established by descendants of company founder John D. Rockefeller, who died in 1937.

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19. CHEAP OIL: SHORT-TERM GOOD, LONG-TERM DANGEROUS

By Christopher Johnson - Analysis
Wed Dec 3, 2008 5:57am EST

LONDON (Reuters) - Motorists must be glad the price of fuel is one thing they do not have to worry too much about as they face the worst recession since the 1930s, but cheap fuel is not good for anyone in the long run.

Global oil prices have collapsed since July, losing two thirds of their value from a peak of almost $150 a barrel and dragging fuel costs to their lowest levels for several years.

But while low energy costs come as welcome short-term relief to consumers and companies struggling with the financial and economic crisis, longer term they can be bad for everyone.

Low energy prices squeeze investment in the oil industry, reducing future supplies. They discourage energy saving and they destabilize countries dependent on oil exports, making oil in the future more likely to be expensive and even more volatile.

Perhaps most important of all, low energy prices stifle investment in alternative energy, deepening dependence on oil and other hydrocarbons and increasing greenhouse gas emissions.

"In the very short term, because we are in a recession, we could all use a low oil price," said Mike Wittner, global head of oil research at French Bank Societe Generale. "It is like a tax break, putting money back into pockets for a short time."

"But in the longer term, today's oil price is too low to support much new supply and will slow the momentum toward alternative fuels, new technology and conservation."

In a rare pronouncement on oil prices, Saudi King Abdullah said on Saturday that crude at $75 a barrel was "fair." Saudi Oil Minister Ali al-Naimi later explained that oil at that level would encourage new output from marginal, higher-cost sources.

"CHEAPER THE BETTER?"

The comment drew criticism from some quarters, including a response from Japan's minister of economy, trade and industry.

"There are frequent comments by oil producers about $60-$75 per barrel," Toshihiro Nikai told reporters in Tokyo. "For us, the cheaper the oil price, the better."

But most analysts broadly agree with the Saudi view, saying they are worried about the consequences of under investment and the need to prevent a shortage in the years ahead.

They say the comments by Japan -- almost entirely dependent on energy imports and seemingly on course for its longest-ever economic contraction -- reflect a short-term strategic view.

As a key supporter of the U.N.-led Kyoto Protocol, Japan well understands the need to encourage energy efficiency, said Michael Lewis, head of commodities research at Deutsche Bank.

"In a downturn, you need any type of stimulus you can get and a lower oil price can help," he said. "But you need to find a stable 'sweet spot' which balances the need for exploration and the funding of alternative energy projects."

Stability in energy prices is essential for any sort of long-term planning, Lewis said, reinforcing comments by India's oil secretary, R.S. Pandey.

"As a major consuming nation we would like prices to remain stable and around this level," Pandey said on Tuesday. "What is more important is there has to be stability in prices. Volatility of the kind witnessed this year has been very bad."

"SWEET SPOT"

While the desired "sweet spot" for oil prices may be lower during a recession, when extra stimulus is needed, most oil industry economists say it is probably well above where oil prices are at the moment -- around $47 a barrel.

In real terms over the last 40 years at today's prices, Deutsche Bank estimates that oil prices have averaged around $35 a barrel, a price it says is far too low for long-term comfort.

"The 'sweet spot' is between $60 and $80, probably the top of that range. That is the long-term fair value," Lewis said.

Simon Wardell, director of the energy markets group at Global Insight Ltd in London, sees broad agreement between OPEC and consuming countries that around $75 is about right for oil.

"That price gets you investment in new production, is high enough to encourage more efficient use of oil and is enough to maintain the budgets of the Middle Eastern countries," he said.

Washington-based consultancy PFC Energy estimates most Middle Eastern oil producers need oil prices this year between $40 and $60 to balance their external accounts.

"My concern is the price going too low," said Wardell. "Closer to $70-75 is a decent equilibrium price."

The International Energy Agency (IEA), which advises 28 industrialized countries on energy policy, says it wants oil prices high enough to foster sustained investment in new energy sources, including costly deep-sea drilling.

"It is very difficult to put an absolute level on what price is fair," said David Fyfe, head of the IEA's oil industry and markets division. "But there is a lot of high cost oil, be it in ultra deep-water, or Canadian oil sands or Arctic developments in northern Russia, which needs a relatively high price."

"We would see a danger if prices fall a lot lower -- that would exacerbate the chances of a medium-term supply crunch."

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20. DOES MR. O KNOW?

By Jim Kunstler

A lot of readers are twanging on me for refraining to castigate President-elect Obama for deeds yet undone. They're discouraged by the advisors and cabinet sectetaries he's picked, ostensibly because the crew coming in are Washington "insiders," meaning they can't possibly see or do things differently.

My own starting point for this is the belief that in the years just ahead any sociopolitical entity organized at the giant scale will flounder -- this includes everything from the federal government to global corporations to factory farms to centralized high schools to national retail chains. So even expecting Mr. Obama's government to act effectively may be asking too much in a situation that will require mostly local action.

The meta-situation will be the overall decline of energy resources and the necessary downscaling of our activities. We are obviously in a transitional period between the old profligate energy economy and the new economy of relative scarcity. We have no idea how disorderly this transition will be, but there is certainly potential for tremendous instability in daily life.

For a while, perhaps, the federal government may retain some ability to affect the way things go, or give the appearance of doing so. This raises the issue of what Mr. Obama and his team really know about our energy predicament. The president-elect has made some noises -- recently on the 60 Minutes show -- that he understands something about the current price dislocations in the oil markets resulting from the larger financial turmoil. He alluded to the public's erroneous notion that current low-ish oil prices mean the oil problem is over. But does the incoming president know some of the following details?

For instance, does Mr. O know that global oil production appears to have peaked at around 85 million barrels a day, with poor prospects of ever getting beyond that? This single naked fact has broad ramifications, above all whether we can continue to think in terms of industrial "growth" as the benchmark for economic health. There are many interpretations of the current financial fiasco. Some of them are

based on long-term technical wave theories. A more down-to-earth view suggests the shock of peak oil -- though it doesn't exclude wave theories.

Does Mr. O know that world oil discovery has fallen to insignificant levels after peaking long ago in the 1960s. Does he know we are finding no more super-giant oil fields on the scale of Arabia's Ghawar or Mexico's Cantarell, which have supplied most of the world's oil for the past forty years and are now running down? Does he know that you can't produce oil that hasn't been discovered? Does Mr. O know that virtually all the oil-producing nations have entered production decline. Surely someone has whispered in his ear about the IEA's projection that global oil production would fall 9.1 percent in the coming year.

Does Mr. O know that oil exports have been trending to decline at a steeper rate than oil depletion? That is, the exporting nations are losing their ability to send oil to the importers (like us) at a rate mathematically greater than the run-down in their production. They are using more of their own oil even while their production is going down. For example, Mexico is depleting overall at more than 9 percent a year (with the Cantarell field alone running down at more than 15 percent annually). Does he know Mexico's net exports are crashing? Mexico has been our number three leading source of imports. In a very few years they will not be able to send us any oil. A deluded American public has no idea that this is happening. Will Mr. O explain it to them?

Does Mr. O know that the "old major" oil companies (Exxon-Mobil, Texaco, Shell, et al) produce less than 10 percent of the world's oil now -- the other 90 percent coming from the foreign nationals -- and that blaming them for the situation is a waste of time. The foreign national companies are changing the landscape of the oil markets. They're making special contracts with "favored customers" rather than just putting their oil up for auction on the futures markets. One thing you can infer from this is that we're entering a period of national oil hoarding based on coming scarcity. The futures markets were based on relative abundance, and they will not operate very well in a climate of scarcity. Consider that the USA will probably not be among the "favored customers" for several oil producing nations. Figure that in with the coming loss of imports from Mexico (and Venezuela and Nigeria).

Does Mr. O know that the current drop in oil prices (due to massive financial deleveraging) has resulted in the cancellation or postponment of the very oil production projects that were hoped to offset the coming depletions? It's not worth it for an oil enterprise (private or foreign) to drill in deepwater or venture into arctic regions when oil is priced at $50-a-barrel -- if it costs $80 to get the stuff out of the ground. It's not worth digging up tar sands in Canada at that price. This halt in activity is going to boomerang back on the US in a year or so, with depletions ongoing everywhere and no new oil to take its place. Does Mr. O know that we're just as likely to see shortages as a resuming rise in oil prices here in the US during his coming term?

Does Mr. O know that the current re-inflation program being run by the Treasury and the Federal Reserve is so egregious that it may lead to loss of the dollar's legitimacy, to the renunciation of dollar holdings by other nations, to the down-rating of US Treasury debt instruments, and finally to an inability of the US to purchase foreign oil -- which comprises two-thirds of all the oil we use every day?

Does Mr. O know that we are not going to run the US automobile and truck fleet on any combination of alt.fuels? Continuing it by other means is a fantasy that will only disappoint us. The motoring era is coming to an end. Heroic investments in highway infrastructure to create jobs will be a tragic waste of our dwindling capital. The pressure for Mr. O to make these misinvestments will be enormous, perhaps insurmountable. There are probably not a thousand people in the US who agree with what I am saying -- meaning the consensus to keep the cars running at all costs overwhelms reality at the moment. Does Mr. O's concept of "change" include the possibility that we may have to live very differently in this society?

Chances are, if Mr. O knows any of these things he might be crucified in the polls and the media by acknowledging them. The only "change" that America really wants to hear about is evicting George Bush from the White House. They're sick of him and all the disturbance he has caused in their financial affairs. But beyond that, the American public is deathly afraid of the kind of changes we actually face -- such as, the end of consumer culture, the gross loss of value in suburban real estate (which forms the bulk of the middle class's private wealth), the prospect of food and fuel scarcities, the need to re-localize our lives, the need to physically shape up to stop the costly and unnecessary drain on our medical resources, to

grow more of our own food, to work harder at things that actually matter, and to save whatever we can for a difficult future.

If Mr. O introduces any of these themes into the national discourse, the public and the media and the bloggers will all dump on him for failing to prop up the wild party that American life became in recent decades.

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