



# Peak Oil News

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

Saturday, December 06, 2008

[Tom Whipple](#), Editor

### Current Developments

#### **1. CRUDE OIL CAPS BIGGEST WEEKLY DROP SINCE 1991 ON LOWER DEMAND**

By Mark Shenk

Dec. 5 (Bloomberg) -- Crude oil fell for a sixth day, capping the biggest weekly drop since the Persian Gulf War in 1991, on concern demand will decline after a report showed U.S. employers cut jobs in November at the fastest pace since 1974. Oil is down 25 percent since Nov. 28 as the recession deepened in the U.S., Europe and Japan. Payrolls fell by 533,000 last month, the Labor Department said today. The International Energy Agency, U.S. Energy Department and OPEC lowered demand forecasts over the past month because of the contraction. "It's all about the economy," said Christopher Edmonds, the managing principal of FIG Partners Energy Research & Capital Group in Atlanta. "There's not much that can be done right now to keep prices from falling off a cliff." Crude oil for January delivery fell \$2.86, or 6.5 percent, to \$40.81 a barrel at 2:51 p.m. on the New York Mercantile Exchange, the lowest settlement since Dec. 10, 2004. Prices have dropped 72 percent since reaching a record \$147.27 on July 11.

#### **2. DRASTIC OIL PRICE FALL MAY PUSH BIG OIL TO PARE SPENDING**

By Isabel Ordonez

December 5, 2008, 1:29 P.M. Et

HOUSTON (Dow Jones)--Rapidly falling oil prices are prompting large oil companies to review 2009 capital programs, shifting analysts' expectations of companies' future spending. This week, Chevron Corp. (CVX) said it will postpone the announcement of its 2009 capital spending plans to the end of January from December, an indication that oil prices have dropped so fast that the oil giant needs extra time to reevaluate its budget. "Our budgets have worked throughout the year when oil prices were much higher, so it's prudent to do some additional planning," said Mickey Driver, a Chevron spokesman. Some analysts suspect that companies need extra time to trim their capital budgets, a move that could translate into a slowdown of investment in both current and new oil capacity. This could potentially further restrain global oil supply and halt or at least slow the slide in prices, though the effect often happens with a lag.

#### **3. IEA CUTS 2009 GLOBAL OIL DEMAND ON SLOWING ECONOMY**

By Nidaa Bakhsh

Dec. 5 (Bloomberg) -- The International Energy Agency cut its global oil demand forecast for 2009 because of the world economic slowdown. The Paris-based agency reduced its demand forecast by 170,000 barrels a day from its November estimate to 86.37 million barrels a day, analyst David Martin said in a phone interview today as the agency issued an update to its July's Medium-Term Oil Market report. The forecast for 2013 demand has been lowered by 2.9 million barrels a day to 91.25 million barrels a day from a July estimate of 94.14 million barrels a day, Martin said. Consumers have cut spending amid a global economic downturn, reducing demand for fuels such as gasoline, and naphtha, used in plastics, clothing, and toys. The IEA has removed Kuwait Petroleum Corp's fourth refinery at Al-Zour and Saudi Arabia's Jubail facility from its forecast of world refinery capacity in 2013 as lower demand delays projects. That cuts 825,000 barrels a day from refinery capacity in 2013, now forecast to

rise 7.98 million barrels a day in the next five years. These large-scale projects “can no longer realistically be completed within the time frame,” the IEA said.

#### **4. DEEPWATER RIG RATES JUMP AS SHORTAGE TRUMPS OIL DROP**

By Joe Carroll

Dec. 5 (Bloomberg) -- Rental rates for deepwater drilling rigs continue to surge as a worldwide shortage of vessels used to search the oceans for oil outweighs the biggest drop in crude prices in a quarter-century. Transocean Inc., the world's largest offshore oil driller, agreed to lease its C. Kirk Rhein Jr. rig to Burgundy Global Exploration Corp. for \$550,000 a day, a 52 percent increase from the previous rate, according to a public filing today. Burgundy's lease commences in February, after South African energy producer Sasol Ltd.'s current contract to use the rig off the coast of Mozambique expires, Transocean said. Burgundy, based in Makati City, Philippines, plans to search for oil in Filipino waters. “It is impressive,” Brian Uhlmer, an analyst at Pritchard Capital Partners LLC in Houston, said today in a note to clients. The rate makes Uhlmer “more comfortable” about deepwater-rig operators' prospects for maintaining profits despite lower crude prices.

#### **5. BETS ON BELOW-\$20 JANUARY OIL BECOME NYMEX MOST ACTIVE OPTIONS**

By Margot Habiby

Dec. 5 (Bloomberg) -- Bets that oil for January delivery will fall below \$20 a barrel were the most active options contract in electronic trading today, a day after Merrill Lynch & Co. said oil may drop to less than \$25. Oil may dip to a six-year low if the worldwide recession spreads and the Organization of Petroleum Exporting Countries fails to stem declines, Francisco Blanch, Merrill commodity strategist, said in a report yesterday. “Under a number of circumstances including a recession in China and a failure from OPEC to cut enough output, we could see prices dipping all the way to \$25 a barrel, which is the level at which we'll destroy some non-OPEC supply,” Blanch said in an interview today. “We're not forecasting that. We're saying it might happen.” His 2009 forecast is for \$50 a barrel. January \$20 puts rose 3 cents to 4 cents a barrel, or \$40 a contract, according to electronic trading data as of 3:25 p.m. on the New York Mercantile Exchange. Volume was 743 contracts. Floor trading settled unchanged at 1 cent a barrel, or \$10 a contract. Today's pit volumes will be released Dec. 8. The contract didn't trade yesterday, according to data today.

#### **6. GLOBAL LNG SHIP ORDERS SLUMP TO LOWEST SINCE 1998**

By Dinakar Sethuraman  
Dec 05, 2008

Dec. 5 (Bloomberg) -- The world's biggest shipyards led by Samsung Heavy Industries Co. and Hyundai Heavy Industries Co. will record the lowest liquefied natural gas tanker orders in a decade as charter rates halve, a consultant said. “This year saw the lowest ordering since 1998 when there were no new orders at all,” Navin Thakur, LNG shipping analyst for Drewry Maritime Services Ltd., said in a phone interview from Gurgaon, near New Delhi. Charter rates for ships transporting spot shipments have almost halved to about \$42,000 a day. Growth in LNG trade may slow to 2 percent this year after expanding 7.3 percent last year because of the delayed commissioning of ventures in Qatar, Russia and Yemen. The global recession has cut LNG demand and reduced financing for new ships. Banks which lent 90 percent of the cost of a ship are now funding less than half while borrowing costs rise, Divay Goel, director of Drewry Maritime Services Ltd., said today in Singapore. “There are delays in LNG projects and new vessels are lying idle,” said Goel. “The vessels were delivered on time while projects did not materialize.”

#### **7. IRAQ OIL EXPORTS FROM TWO NORTHERN FIELDS NOT GUARANTEED**

Iraq Oil Report  
December 5, 2008

While two companies are technically prepping their northern Iraq oil fields for exports to Turkey, political disputes between the central Iraqi government and the Kurdistan Regional Government remain. Eleven days after the Iraqi oil minister traveled to the KRG capital, Erbil, for meetings with the region's prime minister and oil minister, both sides have continued firing warning shots in the debate that has continued

for more than a year on Kurdish oil contracts with international oil companies, Ben Lando reports for United Press International. During the visit, the ministers announced an agreement to allow oil from two deals to be exported and to continue dialogue over the rest. Baghdad says only the central government has the right to sign oil deals, in a difference of interpretation of the 2005 constitution with the KRG, the semiautonomous three-province region in northernmost Iraq.

## **8. VENEZUELA OIL BASKET FALLS TO \$34.49 A BARREL, NEW 2008 LOW**

CARACAS (Dow Jones)--The average price for Venezuela's basket of crude oil and refined products fell \$5.10 to \$34.49 a barrel in the week ending Dec. 5, down from \$39.59 on Nov. 28, the Oil Ministry said Friday. The new price level is the lowest recorded in 2008, in a dramatic drop that is putting fiscal pressure on the government of President Hugo Chavez. The average price for the year running now stands at \$91.62 per barrel, still higher than last year's average of \$64.74 a barrel, figures show. Falling oil prices are becoming a problem for Venezuela's government as it plans a \$78 billion budget for 2009 based on a \$60-a-barrel average price for next year. Venezuela's finance ministry is pondering possible scenarios for a spending cut early next year. Moreover, Petroleos de Venezuela SA is reviewing all energy projects to determine which ones will need to be shelved until oil prices improve. Oil Minister Rafael Ramirez has vowed to push another output cut of at least 1 million barrels a day at the coming meeting of the Organization of Petroleum Exporting Countries scheduled for Dec. 17.

## **9. VENEZUELA TO COMBINE JOINT VENTURES WITH FOREIGN OIL COS**

CARACAS (Dow Jones)--Venezuela will combine a host of joint ventures with foreign oil partners that account for some of the country's largest oil wells. Petroleos de Venezuela SA, PdVSA, will begin by combining the three ventures it jointly controls with U.S.-based Chevron Corp. (CVX), Colombia's Hocol, and France's Perenco, the Venezuelan oil company said in a statement late Friday. The three joint-venture companies, Petroindependiente, Lagopetrol and Petrowarao, located in western Venezuela, have begun the review needed to begin the fusion process, PdVSA said. This review will look into the operational, financial and legal steps needed to make this move a reality, it said. Once all parties agree on the details of the fusion, the statement said, a new business plan will be drawn up, as well as new ownership stakes. Venezuela's PdVSA will continue to own at least 60% of the combined new venture. Petrowarao, Lagopetrol and Petroindependiente are part of a host of companies that migrated into state-controlled joint ventures from their original status as operating contracts back in 2006, after one of President Hugo Chavez's most controversial decisions regarding the oil business.

## **10. PETROBRAS CEO SAYS OIL PRICE NO HURDLE TO SUBSALT**

Fri Dec 5, 2008 11:22am EST

SAO PAULO, Dec 5 (Reuters) - Petrobras (PBR.N: Quote, Profile, Research, Stock Buzz)(PETR4.SA: Quote, Profile, Research, Stock Buzz) Chief Executive Jose Sergio Gabrielli said on Friday the price of oil was not an obstacle to developing massive oil deposits that are difficult to access deep beneath the ocean floor. The finds of potentially more than 50 billion barrels of light oil below a thick layer of salt could turn Brazil into one of the world's top oil producers. The price of oil fell below \$42 per barrel on Friday to its lowest level since January 2005, after a U.S. government report showed more than half a million Americans lost their jobs last month. Analysts said developing the subsalt fields was viable only at a price of at least \$50 per barrel. The price of oil wasn't the biggest concern, Gabrielli told a chemical industry conference in Sao Paulo. "The biggest problem is developing a new model of production to develop these gigantic reserves," he said in Sao Paulo.

## **11. DETROIT BAILOUT NEARS A REPRIEVE**

Plan for Interim Aid Package for Big Three Auto Makers Is Close to an Agreement

By Greg Hitt, Jeffrey Mccracken and Matthew Dolan  
WSJ

WASHINGTON -- New signs of deterioration in the U.S. job market added impetus to appeals by Detroit's auto makers for a bailout, as Democratic leaders in Congress and the White House neared an agreement to providing a down payment to keep the industry afloat until early 2009. Late Friday, House Speaker Nancy Pelosi and the White House were "near a deal, but not 100%" on a plan to provide short-term funding for the Big Three auto makers, a senior congressional aide said. White house spokesman Tony

Fratto said the talks were "still fluid" but stressed officials were "making progress." The emerging deal would draw funds from a program originally meant to help the industry retool to meet higher fuel-economy standards. The actual funding level remains to be set, but is expected to come in the range of \$14 billion to \$15 billion, an amount the companies suggested Friday would be sufficient to carry them into March of next year. Other details remain to be worked out over the weekend.

## **12. MOODY'S CHIEF ECONOMIST SAYS US AUTOMAKERS WOULD LIKELY NEED UP TO \$125B; RECOMMENDS THE REQUESTED GOVERNMENT AID NOW**

Green Car Congress  
5 December 2008

In testimony before the US Senate Committee on Banking, Housing and Urban Affairs on 4 December, Mark Zandi, Chief Economist and co-Founder of Moody's Economy.com, said that under the most likely outlook for the economy and auto industry, the Detroit 3 will need between \$75-\$125 billion to avoid bankruptcy at some point in the next two years. The three recently presented restructuring plans by the three automakers totaled up to a possible \$34 billion (GM, \$12 billion in loans and \$6 billion in a line of credit; Ford, \$9 billion in a line of credit; Chrysler, \$7 billion in loans). Despite the potential quadrupling of that amount, Zandi said that the Federal government should provide the financial help that the automakers need.

## **13. CHESAPEAKE ENERGY CUTS SPENDING, PLANS TO BUILD CASH**

By Dan Lonkevich

Dec. 5 (Bloomberg) -- Chesapeake Energy Corp., the second-biggest independent U.S. natural-gas producer, cut its capital budget and said it plans to build "substantial" cash resources over the next two years because of a plunge in prices. Gas for January delivery fell 27.8 cents, or 4.6 percent, to \$5.739 per million British thermal units at the 2:30 p.m. close of floor trading on the New York Mercantile Exchange. The fuel touched \$5.712, the lowest since prices reached \$5.249 per million Btu on Sept. 10, 2007. Chesapeake, based in Oklahoma City, dropped 52 cents, or 4.4 percent, to \$11.32 in composite trading on the New York Stock Exchange. The stock declined as much as 17 percent before the company announced the budget cuts and cash plan in a statement today. The stock has plunged 71 percent this year. "This is a step in the right direction, and it's what people wanted to see," Joseph Magner, a Denver-based analyst for Tristone Capital Inc., said today in a telephone interview. "The challenge now is, what are the details and what does it imply for production growth and cash flow?"

## **14. DJ INDUSTRIAL NATURAL GAS DEMAND SLUMP ADDS PRESSURE TO PRICES**

By Christine Burma  
Dec 05, 2008

NEW YORK (Dow Jones)--Big industrial companies are sharply cutting back their natural gas consumption as the economic slowdown erodes demand for their products, adding downward pressure to already sinking gas prices. The front-month futures price for gas is now down about 58% from its early July peak, as a surge in domestic U.S. supplies raised fears of a glut just as demand was starting to crumble. Between April and September, monthly gas consumption by industrial users dropped 14% to 4.756 billion cubic feet, the lowest monthly figure since at least 2001, according to U.S. Department of Energy statistics. And anecdotal evidence indicates consumption is falling even further as gas-intensive industries ease back production.

## **15. U.S. WINTER CHILL TO BOLSTER HEATING FUEL DEMAND**

Fri Dec 5, 2008 1:56pm EST  
By Haitham Haddadin - Analysis

NEW YORK (Reuters) - Winter is shaping up to be the coldest in years for much of the United States, spelling potentially robust demand for heating oil and natural gas. The outlook could put a floor under crude oil prices, which have dropped more than \$100 since July due to an economic crisis that has

slashed consumption of transportation fuels like gasoline and jet fuel. "This will be the coldest December since 2000 on average for the U.S. on a whole and it's going to be the coldest winter population-weighted since 2004-2005," said Joe Bastardi of Pennsylvania-based forecaster Accuweather. Americans in north-central and far northeastern states are already feeling a big chill as arctic air brings frigid temperatures near 8-12 degrees Fahrenheit that may linger over the next two weeks, forecasters said. "We're getting a healthy start to December here," said Matt Rogers, a forecaster at Maryland-based MDA EarthSat Energy Weather, adding temperatures in Chicago and New York will be at least 10 degrees below normal this weekend.

## **16. CHEAP U.S. FUEL OIL PROMPTS SWITCHING FROM NATGAS**

Fri Dec 5, 2008 11:43am EST  
By Joe Silha - Analysis

NEW YORK (Reuters) - A collapse in U.S. East Coast residual fuel oil prices over the last month has made it the fuel of choice for many utilities and industrial firms seeking to avoid relatively expensive natural gas. Natural gas competes with residual fuel, also known as No.6 oil, for a share of the power generation and industrial markets and has been cheaper than oil for most of the last two years in the Northeast, also the world's biggest heating oil market. "Now is probably the best time in two years to maximize your (Number) six oil runs at the expense of gas, and it looks like there's been a strong demand response over the last two weeks," said Antoine Halff, energy analyst at Newedge in New York. A chilly November, which ran about 9 percent colder than normal in New York, helped drive regional gas prices up about 18 percent over the last month or so to \$8 per million British thermal units this week, or the oil equivalent of about \$51 a barrel.

## **17. RUSSIA PLEDGES TO BUILD NATURAL GAS PIPELINE BY 2015**

Associated Press  
Dec. 5, 2008, 10:37AM

BELGRADE, Serbia — Russia today pledged to complete a strategic natural gas pipeline through Serbia by 2015 — despite the global financial crisis — paving the way for its immediate purchase of Serbia's state energy monopoly. The head of Russia's oil arm of Gazprom, Alexei Miller, said in Belgrade that the Russian energy giant is to buy a 51 percent stake in Serbia's Naftna Industrija Srbije (NIS) for an estimated \$506.6 million, with the deal expected to be signed by the end of this month. Serbia had said it would only sell the company if Russia committed to building the pipeline. "An agreement was reached today to sign" the package deal to purchase NIS and to build the natural gas pipeline through Serbia, Miller said after his talks with Serbian President Boris Tadic. "The contracts are 100 percent ready," Miller said, adding however that some unspecified details on the purchase of NIS still have to be negotiated.

# **Discussion and Analysis**

## **18. RANK THE TOP 10 OIL STORIES OF 2008**

Posted by Robert Rapier  
The Oil Drum  
December 5, 2008 - 9:34pm

Although lately I find myself struggling to find enough time to write, one of the stories I hope to write is a post covering the top energy stories of 2008. Around that theme, Platts just put up a request for reader input on the top oil industry stories of 2008. Their poll runs until Christmas: Below is the way I would rank the Top 10. I had an easy time ranking the top five, but then it was more difficult to sort them out.

MY TOP 10 OIL INDUSTRY STORIES OF 2008:

1. Crude prices soar in 1H, WTI tops \$147, Brent right behind
2. Prices collapse below \$50 in 2H as demand retreats
3. Ethanol's struggles: VeraSun bankruptcy, others barely profitable, spreads collapse
4. Push begins to lift offshore drilling ban in US; Obama and McCain differ on approach
5. Capital crunch and low prices lead to deferred investment

6. Shale gas supply in US surges, a new factor in supply/demand balance
7. Credit crunch slows activity for once free-wheeling traders
8. Diesel surges, gasoline/naphtha plunge; traditional cracks skewed
9. Russian oil output to fall in 2008, first time in a decade
10. Brazil subsalt finds continue to lift nation's upstream prospects

## Alternatives

### 19. CARBON: THE BIOCHAR SOLUTION

By Lisa Abend  
Time Magazine  
Thursday, Dec. 04, 2008

On his farm in the hills of West Virginia, Josh Frye isn't raising chickens just for meat. He is also raising them for their manure. Through a process that some scientists tout as a solution to climate change, food shortages and the energy crisis, Frye is transforming the waste into a charcoal-like substance called biochar that in the long run could be far better for the world than chicken nuggets. "It might look like this is just a poultry farm," says Frye. "But it's a char farm too." Burn almost any kind of organic material — corn husks, hazelnut shells, bamboo and, yes, even chicken manure — in an oxygen-depleted process called pyrolysis, and you generate gases and heat that can be used as energy. What remains is a solid — biochar — that sequesters carbon, keeping CO2 out of the atmosphere. In principle, at least, you create energy in a way that is not just carbon neutral, but carbon negative.

### 20. WASHINGTON REPORT: ELECTRIC CARS AND BAILOUTS

By Bill Moore  
EV World publisher's perspective on the EDTA electric vehicle conference  
December 05, 2008

It wasn't a wake, but the car industry's troubles cast a long, chilling shadow over the Electric Drive Transportation Association's annual conference in Washington, D.C. this week. What should have been an upbeat, giddy victory celebration had more the mood of a hospital room where friends and relatives speak in hushed, sympathetic tones as the patient -- the auto industry -- lies critically ill. Despite the fact that it is now widely agreed electric power is the unavoidable destiny of the automobile, a cause the EDTA and its predecessors - - as well as EV World -- have long championed, there was no self-congratulatory back-slapping, and smiles were few and far between. Instead, one topic dominated the conversation: what would be the outcome of Senate hearings this week on Capitol Hill? Should Congress give the Big Three \$34 billion in loan guarantees or let them suffer the fate the fabled "free market" inflicts on all those who flout its principle tenet: adapt or die?

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### 1. CRUDE OIL CAPS BIGGEST WEEKLY DROP SINCE 1991 ON LOWER DEMAND

By Mark Shenk

Dec. 5 (Bloomberg) -- Crude oil fell for a sixth day, capping the biggest weekly drop since the Persian Gulf War in 1991, on concern demand will decline after a report showed U.S. employers cut jobs in November at the fastest pace since 1974.

Oil is down 25 percent since Nov. 28 as the recession deepened in the U.S., Europe and Japan. Payrolls fell by 533,000 last month, the Labor Department said today. The International Energy Agency, U.S. Energy Department and OPEC lowered demand forecasts over the past month because of the contraction.

"It's all about the economy," said Christopher Edmonds, the managing principal of FIG Partners Energy Research & Capital Group in Atlanta. "There's not much that can be done right now to keep prices from falling off a cliff."

Crude oil for January delivery fell \$2.86, or 6.5 percent, to \$40.81 a barrel at 2:51 p.m. on the New York Mercantile Exchange, the lowest settlement since Dec. 10, 2004. Prices have dropped 72 percent since reaching a record \$147.27 on July 11.

"After the jobless number, any bulls that were left in the market will become extinct," said Nauman Barakat, senior vice president of global energy futures at Macquarie Futures USA Inc. in New York. "There are no redeeming features in these numbers."

U.S. payrolls were forecast to decline by 335,000, according to the median estimate in a Bloomberg News survey. November's drop exceeded all 73 forecasts by respondents.

#### 'Horrible' Numbers

"The numbers were horrible," said Michael Fitzpatrick, vice president for energy risk management at MF Global Ltd. in New York. "We were expecting something bad but nothing of this magnitude. This is bound to increase the negative sentiment that's been here since summer."

The U.S. entered a recession in December 2007, the National Bureau of Economic Research, a non-profit panel of economists that dates American business cycles, said Dec. 1. U.S. equity markets declined yesterday as oil stocks dropped on forecasts of \$25-a-barrel crude from analysts at Merrill Lynch & Co.

The U.S., European Union and Japan, which are in the first simultaneous recession since World War II, consumed 48 percent of the world's oil in 2007, according to BP Plc, which publishes its Annual Statistical Review of World Energy each June.

The IEA cut its global oil-demand outlook for 2009 because of the world economic slowdown. The Paris-based agency reduced its forecast by 170,000 barrels a day from its November estimate to 86.37 million barrels a day, David Martin, an IEA analyst, said in a phone interview today as the agency issued an update to its July Medium-Term Oil Market report.

#### Consumption Decline

U.S. fuel demand during the four weeks ended Nov. 28 was down 6.2 percent from a year earlier, an Energy Department report showed Dec. 3.

Brent crude oil for January settlement fell \$2.54, or 6 percent, to \$39.74 a barrel on London's ICE Futures Europe exchange, the lowest settlement since Dec. 29, 2004.

Falling prices may lead the Organization of Petroleum Exporting Countries to reduce production.

Qatar's oil minister said on Dec. 3 that OPEC will "definitely" lower output at its next meeting in Algeria on Dec. 17. Abdullah bin Hamad al-Attiyah said he doesn't know by how much the group, which is responsible for more than 40 percent of global supply, will cut at the meeting.

"OPEC is going to have to show much better compliance," said James Ritterbusch, president of Ritterbusch & Associates in Galena, Illinois. "They must feel somewhat dejected that the cut that was thrown at the market has had almost no impact. Although they aren't powerless, they can do very little to support prices until there is a semblance that demand is leveling."

#### OPEC Production Cut

OPEC oil ministers agreed on Oct. 24 in Vienna that the 11 members with quotas would lower supply by 1.5 million barrels a day starting in November. Production by the 11, excluding Iraq and Indonesia, declined 725,000 barrels to 28.24 million barrels a day last month, according to data compiled by Bloomberg News.

"Analysts usually look to OPEC spare capacity and inventories as a guide to oil prices," said Adam Sieminski, Deutsche Bank's chief energy economist, in Washington. "Right now it's the dollar, stock markets and the economy that are the main drivers."

The U.S. dollar rose and the stock market declined as the economy slowed, driving commodities lower.

Gasoline for January delivery declined 6.83 cents, or 7 percent, to 90.12 cents a gallon in New York, the lowest settlement since the contract for reformulated gasoline was introduced in October 2005.

Pump prices have followed futures lower. Regular gasoline, averaged nationwide, dropped 1.6 cents to \$1.773 a gallon, AAA, the largest U.S. motorist organization, said on its Web site today. It's the lowest since January 2005. The fuel has fallen 57 percent from the record \$4.114 a gallon reached on July 17.

"Lower prices should help us get out of this mess," Sieminski said. "We should be thankful for lower prices for a limited amount of time, but these are not sustainable levels. Capital expenditures are staring to be cut."

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"Our budgets have worked throughout the year when oil prices were much higher, so it's prudent to do some additional planning," said Mickey Driver, a Chevron spokesman.

Some analysts suspect that companies need extra time to trim their capital budgets, a move that could translate into a slowdown of investment in both current and new oil capacity. This could potentially further restrain global oil supply and halt or at least slow the slide in prices, though the effect often happens with a lag.

Oil giants such as ExxonMobil Corp. (XOM), Chevron and ConocoPhillips (COP) have consistently said that they will spend in 2009 at similar levels to 2008, despite crashing oil prices and the darkening economic outlook. But as crude futures continue to drop - trading Friday below \$42 a barrel, the lowest level in nearly four years - some analysts now expect Big Oil to announce in the coming weeks budgets that will be 10% to 15% lower than this year.

"Things are changing so fast that it's possible that major oil companies will come up with numbers that are less than previously indicated," said Phil Weiss, an analyst at Argus Research in New York.

Smaller capital programs would reflect savings oil companies expect to reap from lower costs of materials such as copper, concrete and steel that skyrocketed when oil prices were soaring. The flipside of the cuts is a possible slowdown of investment in both current and new oil capacity.

### Budget Cut Effects

Oil companies don't want to make substantial cuts in exploration and production outlays, as that could worsen their ability to access new reserves, a task that has become a major challenge for large producers as oil-rich countries have increased their control over resources.

Investors welcome smaller spending budgets that reflect savings but express concern if lower spending translates into a slowdown of companies' production, which has been decreasing even when oil majors were ramping up spending as old assets are draining.

"If they cut expenditures now, they could pay for it a couple of years out," Weiss said. "One of my biggest concerns is that they have natural depleting assets so they need to make investment to help to maintain and grow production."

For this reason, large producers - which have large cash reserves and mostly take on projects that would be profitable with oil at \$60 a barrel - are carefully reviewing their plans.

Oil companies are trying to have budgets that take advantage of the benefits of lower oil prices, but also are trying to avoid the mistakes made in the early 1980s and late 1990s, the last two price downturns. Many companies slashed budgets during periods of low oil prices, but when prices rebounded, producers found it difficult to ramp back up to capitalize on improved market conditions.

A senior ExxonMobil executive seemed to acknowledge as much, affirming Thursday that the global oil major has no intention of delaying or abandoning any of its oil and gas investment plans. "We don't see any change in our near-term investment plans," said Mark W. Albers, Exxon's senior vice-president, on the sidelines of a conference in Kuala Lumpur. "Crude prices are in a cycle" and will recover, he added.

Shares of major oil companies fell Friday, as crude oil was trading below \$42 a barrel on the New York Mercantile Exchange.

#### Possible Project Delays

Jason Gammel, energy analyst at Macquarie Securities in New York, said the maximum level that major oil companies could reduce spending by next year is limited to 10% to 15%, the discretionary level major oil companies generally have on their budgets. Major oil companies, unlike smaller firms, have very long-term investment commitments that are shielded under contracts that form the bulk of their spending.

Large producers are expected to honor these contracts, but at the same time try to push for lower costs by delaying projects. Over the past few weeks, several major oil producers have announced delays of important projects, or have scaled back their expansion plans in the hope that market conditions will help them secure better deals from contractors.

On Nov. 6 ConocoPhillips, the third largest U.S. company by market value, and Saudi Arabian Oil Co., or Saudi Aramco, officially halted bidding on their 400,000-barrel-a-day refinery at the Yanbu Industrial City, in Saudi Arabia. Both companies cited the uncertainty of the financial markets as the driver of the decision, but analysts saw the delay as a move by both firms to wait and take advantage of lower operating costs.

Besides possible cuts in capital spending, analysts also expect reductions in oil companies' share buyback programs as they have less cash to spend, but no changes to their dividends programs.

ConocoPhillips will be the first U.S. oil major to report its 2009 capital program in mid-December. Chief Executive Jim Mulva said recently the Houston company will hold next year's capital spending flat at the \$15 billion planned for 2008 as it navigates a sharp drop in crude oil prices. ExxonMobil is expected to post its capital program during its annual meeting with analysts in New York that typically occurs in March.

Exxon reaffirmed in October it will continue to spend as planned, investing about \$125 billion over the next five years. But executives have also said the company is actively chasing the lag from lower costs of materials.

"We'll be working very hard to ensure that the lower costs we're seeing in some of these goods and services translate directly into lower costs of those projects to the extent possible," said David Rosenthal, ExxonMobil's vice president of investor relations, in a recent conference call with analysts.

Chevron said that despite the delay in its 2009 capital spending announcement, it plans to have a capital program similar to this year's \$22.9 billion budget. But Chevron's executive vice president of strategy told a conference in New York this week that it doesn't rule out possible small changes to its budget due to lower costs.

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Dec. 5 (Bloomberg) -- The International Energy Agency cut its global oil demand forecast for 2009 because of the world economic slowdown.

The Paris-based agency reduced its demand forecast by 170,000 barrels a day from its November estimate to 86.37 million barrels a day, analyst David Martin said in a phone interview today as the agency issued an update to its July's Medium-Term Oil Market report.

The forecast for 2013 demand has been lowered by 2.9 million barrels a day to 91.25 million barrels a day from a July estimate of 94.14 million barrels a day, Martin said.

Consumers have cut spending amid a global economic downturn, reducing demand for fuels such as gasoline, and naphtha, used in plastics, clothing, and toys.

The IEA has removed Kuwait Petroleum Corp's fourth refinery at Al-Zour and Saudi Arabia's Jubail facility from its forecast of world refinery capacity in 2013 as lower demand delays projects. That cuts 825,000 barrels a day from refinery capacity in 2013, now forecast to rise 7.98 million barrels a day in the next five years.

These large-scale projects "can no longer realistically be completed within the time frame," the IEA said.

The IEA's forecast for 2008 demand has been reduced by 40,000 barrels a day from last month's report, Martin said. Gasoline and naphtha demand will remain weak while growth is biased toward diesel, the IEA said today in the report.

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### 4. DEEPWATER RIG RATES JUMP AS SHORTAGE TRUMPS OIL DROP

By Joe Carroll

Dec. 5 (Bloomberg) -- Rental rates for deepwater drilling rigs continue to surge as a worldwide shortage of vessels used to search the oceans for oil outweighs the biggest drop in crude prices in a quarter-century.

Transocean Inc., the world's largest offshore oil driller, agreed to lease its C. Kirk Rhein Jr. rig to Burgundy Global Exploration Corp. for \$550,000 a day, a 52 percent increase from the previous rate, according to a public filing today.

Burgundy's lease commences in February, after South African energy producer Sasol Ltd.'s current contract to use the rig off the coast of Mozambique expires, Transocean said. Burgundy, based in Makati City, Philippines, plans to search for oil in Filipino waters.

"It is impressive," Brian Uhlmer, an analyst at Pritchard Capital Partners LLC in Houston, said today in a note to clients. The rate makes Uhlmer "more comfortable" about deepwater-rig operators' prospects for maintaining profits despite lower crude prices.

The global credit crunch is a boon for rig operators such as Transocean because the lack of financing is preventing smaller rivals from following through with plans to build new vessels. As many as one-fifth of the new deepwater rigs on order in shipyards from South Korea to Norway will be canceled or delayed because of capital constraints, Uhlmer said in October.

Demand for vessels that can explore more than 6 miles (9.7 kilometers) below the sea surface and hundreds of miles from shore has risen faster than the world's supply of the most- sophisticated drill ships, pushing day rates to a record.

### High Seas

Royal Dutch Shell Plc, Anadarko Petroleum Corp. and other energy producers require rigs that can operate year-round in rough seas and shelter more than 100 employees for weeks at a time to find crude in places such as the Atlantic Ocean off the coast of Angola and the Gulf of Mexico.

Offshore exploration yielded the Western Hemisphere's biggest discovery in three decades when Rio de Janeiro-based Petroleo Brasileiro SA in 2006 found the Tupi field, home to the equivalent of 5 billion to 8 billion barrels of oil.

Transocean also announced higher rental rates today for its GSF Adriatic VI rig off the coast of Gabon and the GSF 103 in Egyptian waters. Each \$50,000 increase in daily rig rates adds \$3.21 to Transocean's full-year per-share earnings, according to JPMorgan Securities Inc.

Transocean, which is based in the Cayman Islands and run from Houston, is expected to boost 2008 profit by 47 percent to \$4.61 billion, based on the average estimate of 19 analysts surveyed by Bloomberg.

### Crude Slump

Oil has lost more than two-thirds of its value since reaching a record \$147.27 a barrel in July, based on New York futures contracts. Crude tumbled as recessions in the world's largest economies cut demand for fuels such as gasoline. Oil touched \$40.81 a barrel today in New York, a price not seen since December 2004.

Transocean rose \$1.52 to \$49.50 in New York Stock Exchange composite trading.

The stock has fallen 65 percent this year as declining energy prices battered the shares of drillers, equipment makers and oilfield-service providers.

Transocean had a \$41.1 billion backlog of orders as of Sept. 30. The company signed a record \$652,000-a-day lease agreement with Italy's Eni SpA in July for the Deepwater Pathfinder ship, followed by a deal at an identical rate with Exxon Mobil Corp. in October for a vessel yet to be built.

There were 3,448 rigs operating worldwide at the end of November, 9.1 percent more than a year earlier, according to a count by Baker Hughes Inc. The figure includes offshore and onshore drills sites.

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## 5. BETS ON BELOW-\$20 JANUARY OIL BECOME NYMEX MOST ACTIVE OPTIONS

By Margot Habiby

Dec. 5 (Bloomberg) -- Bets that oil for January delivery will fall below \$20 a barrel were the most active options contract in electronic trading today, a day after Merrill Lynch & Co. said oil may drop to less than \$25.

Oil may dip to a six-year low if the worldwide recession spreads and the Organization of Petroleum Exporting Countries fails to stem declines, Francisco Blanch, Merrill commodity strategist, said in a report yesterday.

"Under a number of circumstances including a recession in China and a failure from OPEC to cut enough output, we could see prices dipping all the way to \$25 a barrel, which is the level at which we'll destroy some non-OPEC supply," Blanch said in an interview today. "We're not forecasting that. We're saying it might happen." His 2009 forecast is for \$50 a barrel.

January \$20 puts rose 3 cents to 4 cents a barrel, or \$40 a contract, according to electronic trading data as of 3:25 p.m. on the New York Mercantile Exchange. Volume was 743 contracts. Floor trading settled unchanged at 1 cent a barrel, or \$10 a contract. Today's pit volumes will be released Dec. 8. The contract didn't trade yesterday, according to data today.

Open interest was 291 contracts yesterday, the date for which the most recent figures are available. That's unchanged from the day before.

Crude oil for January delivery lost \$2.86, or 6.6 percent, to settle at \$40.81 a barrel at 2:51 p.m. on the Nymex. Earlier, it touched \$40.50, the lowest since December 2004, on concern demand will drop after a report showed U.S. employers cut jobs in November at the fastest pace since 1974.

Futures posted their biggest weekly drop since the Persian Gulf War in 1991. Oil prices have tumbled 72 percent since reaching a record \$147.27 on July 11.

#### January \$50 Calls

Today's second-most active options contract in electronic trading was January \$50 calls, or bets the price will rise above that level.

The contract fell 48 cents to 56 cents a barrel, or \$560 a contract, in electronic trading. The contract fell 49 cents to 55 cents in floor trading. Electronic trading volume was 686 lots, up from 542 yesterday. Volume was 1,759 contracts yesterday when floor trades were added in. Open interest rose to 4,392 yesterday from 3,785 the day before.

Bets that oil for June delivery will fall below \$35 a barrel were the most active options contract on the exchange yesterday, according to floor-trading data released today.

The June \$35 put contract rose 57 cents to \$2.16 a barrel, or \$2,160 a contract. Volume was 10,164 lots, up from 3,300 on Dec. 4. Open interest more than tripled to 13,356 contracts yesterday from 4,006 the day before.

#### December 2012

Bets that oil for delivery in December 2012 will fall below \$60 and \$75 a barrel were the second- and fourth-most active contracts on the exchange yesterday, according to today's data.

December 2012 \$60 put options rose 59 cents to \$7.03 a barrel, or \$7,030 a contract, on volume of 7,800 shares. Open interest climbed to 8,250 lots from 450 the day before.

December 2012 \$75 put options rose 86 cents to \$14.03 a barrel, or \$14,030 a contract, on volume of 3,900 lots. Open interest soared to 5,100 contracts yesterday from 1,651 the day before.

December 2012 futures fell \$2.82, or 3.7 percent, to settle at \$73.60 a barrel today. Yesterday, they lost \$1.05, or 1.4 percent, to \$76.42 a barrel. The contract has fallen 9.8 percent since the U.S. Thanksgiving holiday last week, compared with a 14 percent decline in the most-active January 2009 contract.

January 2009 \$40 put options, the third-most active contract yesterday, rose 60 cents to \$1.49 a barrel, or \$1,490 a contract on volume of 4,434 lots. Open interest was 10,186 lots yesterday, down from 10,880 the day before.

One options contract equals 1,000 barrels of oil.

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## 6. GLOBAL LNG SHIP ORDERS SLUMP TO LOWEST SINCE 1998

By Dinakar Sethuraman

Dec 05, 2008

Dec. 5 (Bloomberg) -- The world's biggest shipyards led by Samsung Heavy Industries Co. and Hyundai Heavy Industries Co. will record the lowest liquefied natural gas tanker orders in a decade as charter rates halve, a consultant said.

"This year saw the lowest ordering since 1998 when there were no new orders at all," Navin Thakur, LNG shipping analyst for Drewry Maritime Services Ltd., said in a phone interview from Gurgaon, near New Delhi. Charter rates for ships transporting spot shipments have almost halved to about \$42,000 a day.

Growth in LNG trade may slow to 2 percent this year after expanding 7.3 percent last year because of the delayed commissioning of ventures in Qatar, Russia and Yemen. The global recession has cut LNG demand and reduced financing for new ships. Banks which lent 90 percent of the cost of a ship are now funding less than half while borrowing costs rise, Divay Goel, director of Drewry Maritime Services Ltd., said today in Singapore.

"There are delays in LNG projects and new vessels are lying idle," said Goel. "The vessels were delivered on time while projects did not materialize."

LNG producers ordered six vessels of 981,000 cubic meters in total capacity this year compared with 23 in 2007 and 35 in 2006 with a combined volume of 11.34 million, he said.

Global ship orders tumbled 90 percent in October as shipowners booked a total of 37 container ships, tankers and other vessels compared with 378 a year earlier, according to Lloyd's Registers Group.

#### Shares Decline

Shares of South Korea's three shipbuilders, Hyundai Heavy, Samsung Heavy and Daewoo Shipbuilding & Marine Engineering Co., have declined more than 47 percent this year compared with a 45 percent drop in the benchmark Kospi index. Their shares rose today in line with regional stock markets after lower oil prices spurred optimism that costs will fall. Samsung Heavy rose 2.5 percent to 20,250 won, Daewoo climbed 4.4 percent and Hyundai Heavy was up 2 percent.

Charterers may have paid as much as \$75,000 a day last winter for some tankers to transport the fuel while the rates since March this year have stayed below \$50,000, Thakur said.

The Baltic Dry Index, a measure of commodity-shipping costs, surged to a record in May, having more than tripled in three years, and has since tumbled about 93 percent, to near six-year lows.

Shipyards delivered 39 tankers this year compared with 33 last year, and are scheduled to deliver 43 in 2009, 18 in 2010, 10 in 2011 and 4 in 2012, he said. Samsung and Daewoo account for 67 percent of the orders.

#### Second-Half Hopes

"The inactivity may be high in the first half of next year," Thakur said, as these projects including Qatar, Sakhalin LNG, Tangguh LNG and Yemen LNG will ramp up shipments only in the second half.

Qatar, the world's biggest LNG producer, has ordered 45 LNG tankers from three South Korean shipyards, each vessel capable of carrying more than 200,000 cubic meters, while the ventures producing the fuel have been delayed by a year.

Norway's Snohvit LNG project, a new production line at Trinidad's Atlantic LNG and Nigeria's new train at the Bonny LNG plant are facing slower-than-expected increases in output, while Qatar's new lines are delayed.

Only one project was approved this year at the port city of Arzew in Algeria, said Andy Flower, an industry consultant and a former executive at BP Plc's LNG business, on Dec. 3 compared with a project each in Angola and Australia in 2007. Fewer approvals dampen orders for ships.

Most of the LNG carriers are chartered at \$60,000 to \$70,000 a day on a term basis for between 15 years and 25 years, Thakur said. Companies rarely order ships dedicated to spot trades unless they have access to supplies.

LNG is natural gas that has been reduced to one-six-hundredth of its original volume at minus 161 degrees Celsius (minus 259 Fahrenheit) for transportation by ship to destinations not connected by pipeline. On arrival, it is turned back into gas for distribution to power plants, factories and households.

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## 7. IRAQ OIL EXPORTS FROM TWO NORTHERN FIELDS NOT GUARANTEED

Iraq Oil Report  
December 5, 2008

While two companies are technically prepping their northern Iraq oil fields for exports to Turkey, political disputes between the central Iraqi government and the Kurdistan Regional Government remain.

Eleven days after the Iraqi oil minister traveled to the KRG capital, Erbil, for meetings with the region's prime minister and oil minister, both sides have continued firing warning shots in the debate that has continued for more than a year on Kurdish oil contracts with international oil companies, Ben Lando reports for United Press International.

During the visit, the ministers announced an agreement to allow oil from two deals to be exported and to continue dialogue over the rest. Baghdad says only the central government has the right to sign oil deals, in a difference of interpretation of the 2005 constitution with the KRG, the semiautonomous three-province region in northernmost Iraq.

"We are in serious discussion with the KRG about several issues," Iraqi Oil Minister Hussain al-Shahristani told reporters Friday following a speech at an oil and gas conference, "but the position vis-a-vis the contracts the Kurds sign without going through the central government remains unchanged. Those contracts have no standing with the Iraq government."

One day earlier KRG Prime Minister Nechirvan Barzani told a news conference, "Let Shahristani say what he wants to, since all the oil contracts of the Regional Government are legal and signed according to the law and Constitution," the Kurdish Globe reports.

Ashti Hawrami, the KRG natural resources minister, told United Press International by phone Friday opponents should take the issue to the Constitutional Court if they wanted.

"We have a contractual right, a constitutional right, a legal right. Anybody has a complaint about that, they can ... take us to court," he said. "Kurdistan oil is Iraqi oil." ...

Abdul-Hadi al-Hasani, the deputy chairman of the Iraqi Parliament's Oil and Gas Committee and a member of Maliki's party, said on the sidelines of an oil conference this week in London that five Kurdish and federal government leaders have formed a new committee to find a solution to a number of ongoing disputes.

The committee includes Deputy Prime Minister Barham Saleh, a Kurd, and Vice President Adil Abdul-Mahdi, a member of the Islamic Supreme Council of Iraq, once a strong ally to Maliki's Dawa Party but recently siding with the Kurdish Coalition.

Hasani said the new committee will look at the two KRG deals producing oil and could find a resolution to the controversy over the other KRG deals, which will face a serious problem if they ever produce oil. The committee has its hands full in tackling other key issues, including the percentage of Iraq's federal budget the KRG should receive and the disputed oil law.

Despite the rhetoric, there is progress in putting disputes to rest. Hasani said he expects a quick decision on the oil law and hopes the multi-partisan Parliament Oil and Gas Committee will begin an open debate this month.

In the meeting last week between Shahrستاني and KRG leaders, they decided to jointly develop the Khormala Dome of the massive Kirkuk oil field. The Iraqi army and KRG's peshmerga military have nearly come to blows twice in the 14 months over rights to do the work and produce oil. Among issues yet to be determined: how much of the oil from Khormala Dome will be sent to Turkey, and how much to a refinery in Erbil, the KRG capital.

Ahmed Rasheed of Reuters

Kim Gamel and Sinan Salaheddin of The Associated Press

Gina Chon of The Wall Street Journal has a nice first person narrative of the proceedings as well.

SK Energy, the largest Korean oil refining firm, with a stake in a KRG oil deal consortium, said it may withdraw from Kurdistan for a chance at oil in the rest of the country, Reuters reports.

Iraq's oil minister called on the global oil industry to assist Iraq in an ambitious plan to increase the ability to produce, utilize and export oil and gas," Ben Lando reports in a separate article for UPI.

Shahrستاني said investment of international oil companies could help Iraq free itself from being "imprisoned in a 1970s time capsule," a reference to the start of Saddam Hussein's rule that brought three wars, mismanagement and U.N. sanctions, and resulting degradation of infrastructure, loss of new technology and Iraqi expertise.

Big Oil was represented at the Iraq Energy Expo only by ConocoPhillips and Marathon, with the rest too concerned with security, according to officials. Attendees included Russia's LUKoil, Rosneft and Gazprom Neft and exploration and service companies from Pakistan, Japan and elsewhere.

Low world oil prices could exacerbate the plight of internally displaced persons (IDPs), according to the U.N. humanitarian assistance office. The government, which relies on oil revenues for over 90 percent of its income, will have to cut financial assistance to IDPs in next year's budget, an Iraqi lawmaker has said. "There is no doubt the current economic crisis... will affect Iraq's income and living standards, especially those of the miserable displaced families," Abdul-Khaliq Zankana said.

An Iraqi transport ministry delegation is discussing in Rome a project to build a giant port on the coast of the Persian Gulf, RIA Novosti reports. Iraq, which has a Persian Gulf coastline of less than 100 kilometers (60 miles), has so far only one deep sea commercial port, Umm Qasr.

Alive in Baghdad: Still No Electricity Surge

The electricity is the second greatest concern for the Iraqi people after security. Iraqis have suffered from a lack of electricity before the war and have been angry to see it continue after. The excuse most often given by Saddam's regime was the impact of the sanctions and the lack of spare parts. The new Iraqi government blames the security situation and the lack of funding for new electricity providers. Iraqi citizens have developed new ways to provide electricity to support their daily life.

Security, Society & Politics

Developments over the past week in Iraq have offered an operational opportunity to al-Qaida, and it will be interesting to see if it can grasp it, William S. Lind writes for UPI. However, last week the Iraqi Parliament sitting in Baghdad passed the new Status of Forces Agreement that would keep American combat troops in their country at least through the year 2011. The U.S. government regards that outcome as a success, which it is not. What the United States needs most is to get out of Iraq before the next round in the Iraqi civil war starts.

Blocked roads, traffic jams and long waits stretching out for kilometers are disrupting the life of workers across Baghdad's public and private sectors. From early morning to evening the capital's streets are clogged with traffic, Hayder Najm writes for Niqash.

Ahmed Sallum, a taxi driver says that "the checkpoints deployed all over Baghdad are responsible for the jams," claiming that if one policeman is not in a good mood, he can cause traffic and make a huge number of cars wait." Not only are cars obliged to wait, but their drivers are also ill-treated. "Sometimes police at check points stop taxi drivers for long hours and oblige them to take a different route and this causes us great losses," he added.

Read what Iraqis read: the Iraq Press Roundup by UPI's Alaa Majeed.

The Kurdistan Regional Government's coordinator to the U.N. said that part of the report issued by the UN Assistance Mission for Iraq (UNAMI) on human rights abuses in the country is "incorrect," Voices of Iraq reports.

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#### 8. VENEZUELA OIL BASKET FALLS TO \$34.49 A BARREL, NEW 2008 LOW

CARACAS (Dow Jones)--The average price for Venezuela's basket of crude oil and refined products fell \$5.10 to \$34.49 a barrel in the week ending Dec. 5, down from \$39.59 on Nov. 28, the Oil Ministry said Friday.

The new price level is the lowest recorded in 2008, in a dramatic drop that is putting fiscal pressure on the government of President Hugo Chavez.

The average price for the year running now stands at \$91.62 per barrel, still higher than last year's average of \$64.74 a barrel, figures show.

Falling oil prices are becoming a problem for Venezuela's government as it plans a \$78 billion budget for 2009 based on a \$60-a-barrel average price for next year. Venezuela's finance ministry is pondering possible scenarios for a spending cut early next year.

Moreover, Petroleos de Venezuela SA is reviewing all energy projects to determine which ones will need to be shelved until oil prices improve.

Oil Minister Rafael Ramirez has vowed to push another output cut of at least 1 million barrels a day at the coming meeting of the Organization of Petroleum Exporting Countries scheduled for Dec. 17.

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#### 9. VENEZUELA TO COMBINE JOINT VENTURES WITH FOREIGN OIL COS

CARACAS (Dow Jones)--Venezuela will combine a host of joint ventures with foreign oil partners that account for some of the country's largest oil wells.

Petroleos de Venezuela SA, PdVSA, will begin by combining the three ventures it jointly controls with U.S.-based Chevron Corp. (CVX), Colombia's Hocol, and France's Perenco, the Venezuelan oil company said in a statement late Friday.

The three joint-venture companies, Petroindependiente, Lagopetrol and Petrowarao, located in western Venezuela, have begun the review needed to begin the fusion process, PdVSA said. This review will look into the operational, financial and legal steps needed to make this move a reality, it said.

Once all parties agree on the details of the fusion, the statement said, a new business plan will be drawn up, as well as new ownership stakes. Venezuela's PdVSA will continue to own at least 60% of the combined new venture.

Petrowarao, Lagopetrol and Petroindependiente are part of a host of companies that migrated into state-controlled joint ventures from their original status as operating contracts back in 2006, after one of President Hugo Chavez's most controversial decisions regarding the oil business.

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## 10. PETROBRAS CEO SAYS OIL PRICE NO HURDLE TO SUBSALT

Fri Dec 5, 2008 11:22am EST

SAO PAULO, Dec 5 (Reuters) - Petrobras (PBR.N: Quote, Profile, Research, Stock Buzz)(PETR4.SA: Quote, Profile, Research, Stock Buzz) Chief Executive Jose Sergio Gabrielli said on Friday the price of oil was not an obstacle to developing massive oil deposits that are difficult to access deep beneath the ocean floor.

The finds of potentially more than 50 billion barrels of light oil below a thick layer of salt could turn Brazil into one of the world's top oil producers.

The price of oil fell below \$42 per barrel on Friday to its lowest level since January 2005, after a U.S. government report showed more than half a million Americans lost their jobs last month.

Analysts said developing the subsalt fields was viable only at a price of at least \$50 per barrel.

The price of oil wasn't the biggest concern, Gabrielli told a chemical industry conference in Sao Paulo.

"The biggest problem is developing a new model of production to develop these gigantic reserves," he said in Sao Paulo.

"We need to optimize the production system for the subsalt (reserves)," Gabrielli said.

A host of technological challenges to extracting the oil from as deep as 7 kilometers (4.5 miles) below sea level could further increase costs, according to analysts.

But authorities said they expect production costs to fall with the global economic downturn as equipment and services become cheaper.

Petrobras holds 65 percent of the recoverable subsalt reserves of around 15 billion barrels in Brazil.

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## 11. DETROIT BAILOUT NEARS A REPRIEVE

Plan for Interim Aid Package for Big Three Auto Makers Is Close to an Agreement

By Greg Hitt, Jeffrey Mccracken and Matthew Dolan  
WSJ

WASHINGTON -- New signs of deterioration in the U.S. job market added impetus to appeals by Detroit's auto makers for a bailout, as Democratic leaders in Congress and the White House neared an agreement to providing a down payment to keep the industry afloat until early 2009.

Late Friday, House Speaker Nancy Pelosi and the White House were "near a deal, but not 100%" on a plan to provide short-term funding for the Big Three auto makers, a senior congressional aide said.

White house spokesman Tony Fratto said the talks were "still fluid" but stressed officials were "making progress."

The emerging deal would draw funds from a program originally meant to help the industry retool to meet higher fuel-economy standards. The actual funding level remains to be set, but is expected to come in the

range of \$14 billion to \$15 billion, an amount the companies suggested Friday would be sufficient to carry them into March of next year. Other details remain to be worked out over the weekend.

But the proposed pact is expected to include a commitment to rapidly replenish the retooling program, a priority of the speaker. Also envisioned is strong government oversight, including the creation of a board that would help manage the industry's restructuring.

## Spaghetti Junction

The government's options for aiding Detroit are complicated:

1. OPTION: Narrow bill offers funds to tide over Detroit until early '09.  
OBSTACLE: Republicans say that doesn't fix long-term ills
2. OPTION: Release \$25 billion in loans for creating fuel- efficient cars.  
OBSTACLE: House Democrats oppose diverting those funds.
3. OPTION: Congress passes bill directing Treasury to use TARP funds.  
OBSTACLE: Treasury would have to request release of more funds from Congress.
4. OPTION: Federal Reserve lends directly to the Big Three.  
OBSTACLE: Fed strongly opposes.
5. OPTION: U.S. helps the Big Three into a prepackaged bankruptcy  
OBSTACLE: Detroit and Democrats oppose.

Democratic leaders have hopes the deal will be endorsed by congressional Republicans, and sped through the House and Senate next week.

Such a move would in effect punt the matter to the next Congress, giving lawmakers time to consider larger issues, such as whether a government board should be created to manage the industry's revamping.

A delay also would ensure President-elect Barack Obama would have a direct voice in the industry's future.

Friday's report of massive job losses, which overshadowed a House hearing convened to examine the industry's plea for aid, prompted some lawmakers to warn that a collapse of General Motors Corp., Chrysler LLC or Ford Motor Co. would heighten the nation's economic distress.

But as has been the case for weeks, there was little consensus about what to do next -- and remaining opposition by some legislators to any sort of bailout. How such a bill would be funded and at what level remain unclear, although the option of using loans once envisioned to help Detroit meet fuel-efficiency standards was gaining currency.

House Financial Services Chairman Barney Frank (D., Mass.), who presided over the hearing, is expected to work with other lawmakers, including Senate Banking Chairman Christopher Dodd (D., Conn.). Mr. Frank said Friday's employment report "heightened the interest in doing something."

Friday evening, top House and Senate Democrats, including Speaker Pelosi of California and Senate Majority Leader Harry Reid of Nevada, began a series of meetings aimed at exploring a possible compromise. Ahead of the session, Mrs. Pelosi spoke with White House Chief of Staff Josh Bolten, and further talks were expected with the White House over the weekend.

Also Friday, Majority Leader Steny Hoyer (D., Md.) said the House would assemble Tuesday and could consider an auto-aid package along with other economic legislation. Details remain to be worked out.

GM, Chrysler and Ford were seeking \$34 billion combined in taxpayer-backed loans and credit lines to weather the steep downturn in car sales and the economy. Underscoring the stakes, GM and Chrysler say they could run out of the money they need for next year by the end of this month.

Chrysler has hired the bankruptcy firm Jones Day to provide counsel for a possible Chapter 11 filing, according to several people familiar with the matter. In a statement, Chrysler confirmed it has retained Jones Day and other advisers "to provide a comprehensive independent analysis of the various options available to the company." It made the move several weeks ago. A Jones Day spokeswoman declined to comment.

The Big Three auto makers are back in front of Congress Friday explaining why they need \$34 billion in taxpayer money. Courtesy of Fox News. (Dec. 5)

Also, the Canadian units of the Big Three have asked that nation's government for aid. Ford is seeking a \$2 billion line of credit while Chrysler asked for a \$1.6 billion loan. The amount of GM's request wasn't disclosed. (Toyota announced additional production cutbacks in North America. Please see related article.)

At the second of two congressional hearings this week to examine the industry's renewed plea for aid, lawmakers seized on the Labor Department report, which said the November unemployment rate was the highest since 1993, to urge some kind of immediate action. "If we're being practical, that's what we should be doing," said Rep. Paul Kanjorski (D., Pa.), endorsing the idea of short-term funding. Rep. Peter King (R., N.Y.) said he, too, would be willing to support "something transitional," and pointed to the November job losses.

GM CEO Rick Wagoner and Chrysler's Robert Nardelli endorsed the idea of interim aid and said they need \$14 billion -- \$4 billion for Chrysler and \$10 billion for GM -- to get through March 31. As a condition of such loans, they agreed to secure a host of concessions from the United Auto Workers union and others, including creditors. "It would be an unmitigated disaster" not to act, Mr. Wagoner told the lawmakers.

Detroit vs. Washington

Rep. Jeb Hensarling, a Texas Republican, said he'd "be happy to" to keep the industry afloat by diverting \$25 billion in loans created by Congress to help the industry meet higher fuel economy standards.

That concept has been the White House's favored approach and was again endorsed by the president Friday. "It is important that Congress act next week on the plan," Mr. Bush said of the proposal. Mr. Bush said strong protections should be imposed to ensure the loans are repaid. "I am concerned about the viability of the automobile companies," Mr. Bush said, adding, "likewise, I am concerned about taxpayer money being provided to those companies that may not survive."

Many Democrats oppose tapping the fuel-efficiency loans out of concern the industry would backtrack on its environmental commitments. Mrs. Pelosi and other Democrats are pushing Mr. Bush to give the auto makers access to the \$700 billion pool created to aid financial-industry companies. Mr. Bush and many Republicans oppose the idea. Several other ideas, such as forcing banks benefiting from the federal rescue funds to lend to the auto makers, have also been floated.

Chrysler's efforts have been complicated by increasing congressional scrutiny about why its majority owner, Cerberus Capital Management LP, doesn't help the auto maker. Mr. Nardelli acknowledged Friday that he has appealed to Cerberus for help and was turned down. A Cerberus spokesman disputed that notion. "Cerberus and its affiliates have worked tirelessly to assist Chrysler in every imaginable way," he said.

But some on Capitol Hill believe Chrysler and Cerberus want short-term financing to buy time before selling the auto maker or merging it with another company. GM and Chrysler held merger talks this fall before the industry's condition worsened. If Cerberus "will not put forth any more money to stave off

bankruptcy, how could we in all good conscience expect taxpayers to take on this substantial cost?" asked Rep. Ginny Brown-Waite (R., Fla.).

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## 12. MOODY'S CHIEF ECONOMIST SAYS US AUTOMAKERS WOULD LIKELY NEED UP TO \$125B; RECOMMENDS THE REQUESTED GOVERNMENT AID NOW

Green Car Congress  
5 December 2008

In testimony before the US Senate Committee on Banking, Housing and Urban Affairs on 4 December, Mark Zandi, Chief Economist and co-Founder of Moody's Economy.com, said that under the most likely outlook for the economy and auto industry, the Detroit 3 will need between \$75-\$125 billion to avoid bankruptcy at some point in the next two years.

The three recently presented restructuring plans by the three automakers totaled up to a possible \$34 billion (GM, \$12 billion in loans and \$6 billion in a line of credit; Ford, \$9 billion in a line of credit; Chrysler, \$7 billion in loans). Despite the potential quadrupling of that amount, Zandi said that the Federal government should provide the financial help that the automakers need.

Zandi made two other primary points in his testimony. First, while the restructuring plans could result in a viable long-term domestic auto industry, there is a "considerable risk" that those plans will not be executed effectively by all three. Second, he recommended that Congress provide the \$34 billion in aid in two tranches in exchange for warrants and restrictions on executive compensation and dividend payments. The first payout should be sufficient to forestall the automakers' imminent disorderly bankruptcy. The second payout should be made only if the restructuring plans are proceeding successfully.

If the restructuring plans are unsuccessful, he said, then the government should provide no more loans, but work to ensure that there is an orderly bankruptcy process by providing financing in bankruptcy and guaranteeing warranties on new vehicles sold.

Even in an orderly bankruptcy, there still would be substantial layoffs. The companies would come out of bankruptcy much smaller, reflecting the much smaller new-car market and their loss of market share. But if this rationalization is done in an orderly way, the job losses should be thousands of jobs per month and not hundreds of thousands. While painful, this is manageable.

The danger of filing for bankruptcy now, Zandi said, is that a Chapter 11 restructuring would likely turn rapidly into a Chapter 7 liquidation, with factories and other operations shut down and assets sold to pay creditors.

Given the collapse in the financial system and resulting credit crunch, debtor in possession, or DIP, financing would be all but impossible to get. Bankrupt firms need DIP financing to operate their businesses—to pay suppliers, finance inventories and meet payroll—while they restructure...in the current credit crunch nothing will persuade creditors to take the risk.

Zandi assessed GM as being in much worse shape than Chrysler, which is in much worse shape than Ford. Although Ford has more financial latitude, it too would be at significant risk of bankruptcy if GM or Chrysler failed given the disruption to their supply base, dealers and creditors, Zandi said. The collapse of the Detroit 3 would put some 2.5 million jobs at risk, he said.

The auto industry has among the largest economic multipliers of any industry. For every one lost job in auto assembly, another nine jobs are lost in other supplying industries. Industries that would face considerable negative repercussions include auto suppliers, auto dealers, steel and metal suppliers, plastic and rubber companies, healthcare providers, and trucking and freight operators.

The hit to already record low consumer and business confidence would be devastating. The economic fallout on the already very hard-hit industrial Midwest would be disastrous. The Michigan and Ohio

economies have been in recession more or less since the beginning of this decade, and the collapse of the Big Three would completely undermine their economies well into the next decade.

Other state economies that would be significantly hurt include Indiana, Illinois and Wisconsin. Exacerbating the economic fallout in the industrial Midwest is that unemployed workers would find it difficult to move to perhaps Kentucky, Tennessee or Alabama to work for the stronger transplants. Their home values have fallen so sharply that many are now underwater—they owe more on their homes than they are worth. To move would require that they put more into their home or to default on their existing mortgages

Zandi based his \$75-\$125 billion cost estimate in part on the expectation that light vehicle sales will average close to 11 million units in 2009, 13.5 million units in 2010, and less than 15 million units in 2011. Vehicle sales in the US have averaged almost 17 million units annually from 1999 to 2006.

Also weighing on vehicle sales is the large amount of pent-up vehicle demand. Given broad demographic, wealth and income trends, underlying new vehicle sales are at best 16 million units annually. The automakers were able to maintain sales of closer to 17 million units during the first half of this decade only by providing increasingly large discounts and easier financing terms...Total pent-up vehicle demand is estimated to be over 10 million units; at the current sales pace, the entire auto industry would have to shut down production for nearly a year to work it all off.

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**13. CHESAPEAKE ENERGY CUTS SPENDING, PLANS TO BUILD CASH**

By Dan Lonkevich

Dec. 5 (Bloomberg) -- Chesapeake Energy Corp., the second- biggest independent U.S. natural-gas producer, cut its capital budget and said it plans to build "substantial" cash resources over the next two years because of a plunge in prices.

Gas for January delivery fell 27.8 cents, or 4.6 percent, to \$5.739 per million British thermal units at the 2:30 p.m. close of floor trading on the New York Mercantile Exchange. The fuel touched \$5.712, the lowest since prices reached \$5.249 per million Btu on Sept. 10, 2007.

Chesapeake, based in Oklahoma City, dropped 52 cents, or 4.4 percent, to \$11.32 in composite trading on the New York Stock Exchange. The stock declined as much as 17 percent before the company announced the budget cuts and cash plan in a statement today. The stock has plunged 71 percent this year.

"This is a step in the right direction, and it's what people wanted to see," Joseph Magner, a Denver-based analyst for Tristone Capital Inc., said today in a telephone interview. "The challenge now is, what are the details and what does it imply for production growth and cash flow?"

Chesapeake said in September it was cutting capital spending by \$3 billion through 2010. The company has been selling stakes in its best properties to help pay down debt and raise money for additional exploration.

**More Cuts**

"They're going to have to cut \$1.35 billion to \$1.4 billion based on keeping a production growth rate of 16 percent," Magner said regarding 2009. "They have an additional \$1.25 billion to \$1.75 billion planned for acquisitions and leaseholds and potential proceeds from asset sales. We wouldn't be surprised to see another \$3 billion or more in spending cuts."

Chesapeake sold an interest in its Marcellus Shale assets to StatoilHydro ASA for \$1.25 billion in November. BP Plc, Europe's second-biggest oil company, bought a stake in the Woodford Shale asset for \$1.75 billion in July and an interest in the Fayetteville Shale for \$1.9 billion in September.

Devon Energy Corp. is the largest U.S. independent oil and gas producer. Independent producers are those without refining assets.

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#### 14. DJ INDUSTRIAL NATURAL GAS DEMAND SLUMP ADDS PRESSURE TO PRICES

By Christine Buurma  
Dec 05, 2008

NEW YORK (Dow Jones)--Big industrial companies are sharply cutting back their natural gas consumption as the economic slowdown erodes demand for their products, adding downward pressure to already sinking gas prices.

The front-month futures price for gas is now down about 58% from its early July peak, as a surge in domestic U.S. supplies raised fears of a glut just as demand was starting to crumble. Between April and September, monthly gas consumption by industrial users dropped 14% to 4.756 billion cubic feet, the lowest monthly figure since at least 2001, according to U.S. Department of Energy statistics. And anecdotal evidence indicates consumption is falling even further as gas-intensive industries ease back production.

According to an informal survey by the Industrial Energy Consumers of America of eight major industrial companies, gas usage is down 22%, on average, from a year ago. The Washington, D.C.-based lobbying group said its survey comprised a cross-section of major industrial companies, including fertilizer, brick, glass, and automotive businesses. Industrial companies account for about 30% of total U.S. gas demand, according to the Energy Information Administration, the statistical arm of the Department of Energy.

"We think consumption will continue to fall into 2009," said Paul Cicio, the president of the IECA. "Capital expenditures are being put on hold."

#### Cutting Back

Natural gas is the base ingredient for products including plastic, fertilizer, antifreeze and some fabrics. Companies also use natural gas for onsite power plants and heating systems.

The falloff in natural gas demand has been particularly noticeable in the fertilizer industry because gas is an essential raw material for nitrogen-based fertilizer production.

Agrium Inc. (AGU), a Canadian fertilizer company with extensive U.S. operations, has cut its natural gas consumption by between 5% and 10% this year, compared to last year, said Richard Downey, the company's vice president of investor relations. Agrium shut down one unit of a large fertilizer plant in Alberta indefinitely in September amid falling fertilizer demand and high natural gas prices.

But the company's gas demand could rebound in the spring as planting season begins, Downey said.

"We've seen a slight decline in our gas purchase requirements, but we do think it's a short-term phenomenon," he said.

CF Industries Holdings, Inc, a Deerfield, Ill.-based fertilizer company, hasn't reported a decline in natural gas demand or fertilizer production, but the company is "monitoring the situation closely," said spokesman Charles Nekvasil.

Expectations of lower industrial demand have led analysts to slash their natural gas-price forecasts for next year. U.K.-based energy advisory firm Wood Mackenzie said last month that it expects U.S. natural gas prices to trade in a range of \$5.00 to \$6.00 a million British thermal units for the next five years. Gas for January delivery was recently trading down 4.4% at \$5.752 a million British thermal units on the New York Mercantile exchange.

"In coming to our conclusions, we have taken account of...the decline in demand due to a prolonged recession to (the fourth quarter) 2010," said Jen Snyder, head of Wood Mackenzie North American Gas Research, speaking at the company's Houston Energy forum in November.

Meanwhile, Morgan Stanley has cut its 2009 natural gas price expectation Tuesday to \$7/MMBtu from \$8/MMBtu.

"Industrial demand trends continue to weaken, as chemical demand looks to be a key area of potential weakness in '09," Morgan Stanley analysts wrote in a note to clients.

The Federal Reserve's Industrial Production Index, which includes gas-intensive industries such as petrochemicals and refining, fell 6% in September, compared with the previous year.

Dow Chemical Co. Chief Executive Andrew Liveris on Thursday told CNBC that he expects the company to announce cost reductions in coming weeks to deal with "miserable" economic conditions.

Spokesmen from chemical giants DuPont Co. and Dow didn't return calls for comment.

#### Looking Beyond Winter

In the near term, sliding industrial gas demand could be offset by unusually cold winter weather in the major gas-consuming regions, which could spark significant heating demand. WSI Corp., an Andover, Mass.-based private forecaster, is predicting below-normal temperatures in the Northeast, Southeast and Midwest in December.

But beyond the winter heating season, falling industrial consumption, combined with continued production growth from natural gas-shale reservoirs and rising imports of liquefied natural gas, is likely to pressure prices lower, analysts said. Falling petroleum prices are also likely to drive the natural gas market lower, said Amy Sweeney, a statistician at the Energy Information Administration in Washington, D.C.

"A lot of industrial consumers can switch between natural gas and petroleum products to fire their plants, and petroleum prices have dropped a lot," she said.

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**15. U.S. WINTER CHILL TO BOLSTER HEATING FUEL DEMAND**

Fri Dec 5, 2008 1:56pm EST  
By Haitham Haddadin - Analysis

NEW YORK (Reuters) - Winter is shaping up to be the coldest in years for much of the United States, spelling potentially robust demand for heating oil and natural gas.

The outlook could put a floor under crude oil prices, which have dropped more than \$100 since July due to an economic crisis that has slashed consumption of transportation fuels like gasoline and jet fuel.

"This will be the coldest December since 2000 on average for the U.S. on a whole and it's going to be the coldest winter population-weighted since 2004-2005," said Joe Bastardi of Pennsylvania-based forecaster Accuweather.

Americans in north-central and far northeastern states are already feeling a big chill as arctic air brings frigid temperatures near 8-12 degrees Fahrenheit that may linger over the next two weeks, forecasters said.

"We're getting a healthy start to December here," said Matt Rogers, a forecaster at Maryland-based MDA EarthSat Energy Weather, adding temperatures in Chicago and New York will be at least 10 degrees below normal this weekend.

"From a weather standpoint we will have increased heating fuel demand, but that may be offset by the demand destruction associated with the slower economic activity," he said.

The U.S. Northeast is the world's largest heating oil market while the Midwest favors natural gas.

While demand for heating fuels may be driven higher this winter, consumers could get a break on costs thanks to the dramatic slump in crude prices that has dragged down heating oil and natural gas.

Residential heating oil prices are running at \$2.68 a gallon, nearly 60 cents below last year, according to the U.S. Energy Information Administration.

#### CHICAGO: CAPITAL OF COLD

The Midwest is seen as the epicenter of cold this month.

In an updated outlook this week, Kansas-based World Weather Inc said "winter promises to be cooler than usual over the Midwest and part of the Central Plains" and a "cooler than usual bias" is likely over much of the Mid-Atlantic states.

Snowfall will be greater than usual in the Midwest and possibly the Mid-Atlantic, added World Weather's Drew Lerner.

"Chicago looks like the capital of cold for the next few weeks in December," Accuweather's Bastardi told Reuters

"The worst will come first. December will slap you in the face in terms of cold, especially in the Midwest," he added. Bastardi sees the Windy City averaging 10 degrees below normal this month versus 2 degrees below normal in Boston.

Forecasters also foresee bookends of cold this winter -- a warm January wedged between a cold December and February.

"December will be below normal in Chicago and probably the Northeast, then into January you get a pretty mild month," said WSI Corp forecaster Todd Crawford. Arctic air masses could bring cold snaps back in February and March, Crawford added.

"We estimate about two-thirds of the U.S. will have below-normal temperatures in our winter forecast," Crawford said.

"It could be the strongest heating oil demand in about four years in the Northeast ... the last winter that had below normal temperatures was 2004-2005," he added.

For the western half of the United States, WSI forecast colder-than-average temperatures also this winter, but not so the southeast which "looks pretty warm," Crawford added.

Not everyone agrees on the severity of winter cold, though.

DTN Meteorlogix, in Woburn, Massachusetts, sticks to a forecast which sees "some risk" of below normal Northeast temperatures. Mid-Atlantic snowfall will be lower than normal, it added.

"I don't agree with those who call it the coldest winter in years," in the Northeast, said Jeff Johnson of Meteorlogix.

"Overall, what we'll see is a lot of variability," Johnson told Reuters. There will be several weeks colder than average, then the pattern will flip and you get warmer than average."

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Fri Dec 5, 2008 11:43am EST  
By Joe Silha - Analysis

NEW YORK (Reuters) - A collapse in U.S. East Coast residual fuel oil prices over the last month has made it the fuel of choice for many utilities and industrial firms seeking to avoid relatively expensive natural gas.

Natural gas competes with residual fuel, also known as No.6 oil, for a share of the power generation and industrial markets and has been cheaper than oil for most of the last two years in the Northeast, also the world's biggest heating oil market.

"Now is probably the best time in two years to maximize your (Number) six oil runs at the expense of gas, and it looks like there's been a strong demand response over the last two weeks," said Antoine Halff, energy analyst at Newedge in New York.

A chilly November, which ran about 9 percent colder than normal in New York, helped drive regional gas prices up about 18 percent over the last month or so to \$8 per million British thermal units this week, or the oil equivalent of about \$51 a barrel.

At the same time, low- and mid-sulphur fuel oil grades in New York Harbor have dropped more than 25 percent to between \$33 and \$43 a barrel as crude oil prices plunged more than \$100 from their July highs.

Most East Coast residual fuel oil prices were hovering at three- to four-year lows.

"The resilience of gas prices compared to oil has been an incentive for power generators to look at oil," Halff said.

According to data from the U.S. Energy Information Administration this week, residual fuel oil deliveries jumped last week to 958,000 barrels per day, up from 571,000 bpd the previous week and more than double the 400,000 bpd to 450,000 bpd rate seen from mid-October to mid-November.

That marks a singular bright spot in U.S. petroleum demand, which has been hard-hit by an economic crisis that has cut into road and air travel.

While some of the increase can be pegged to colder late November weather, oil traders and brokers said at least some of the gain is due to fuel switching.

"Gas had all the six oil demand last year but not this year. The economics are so compelling that virtually all of our end users who can switch (from gas to fuel oil) have switched," a Northeast marketer said.

#### POTENTIAL IMPACT ON GAS

Some large industrial firms, businesses and power generators can burn either oil or gas to produce heat and electricity, depending on which is cheaper, and the recent switch away from gas could spell more price pressure for cleaner-burning natural gas.

Tighter environmental restrictions in recent years have steadily steered the power industry toward lower sulphur oils or natural gas by placing curbs on total emissions.

Estimates vary on how much switching can be done, but according to Strategic Energy and Economic Research, there is about 1.4 billion cubic feet per day of switching capability from gas to residual fuel during winter, with up to 2.7 bcf per day possible on a peak day.

Annual U.S. natural gas demand averages about 64 bcf daily, but usage rises to more than 75 bcf per day during the November through March heating season, so switching to residual fuel could slow winter gas demand by as much as 2 percent.

While cold weather was expected to continue in the Northeast for the next two weeks and help underpin East Coast gas quotes, prices for natural gas overall have been struggling as high inventories, near-record onshore production and concerns about a slowing economy weigh on sentiment.

Gas prices on the New York Mercantile Exchange are currently trading in the \$6 per mmBtu area, down more than 50 percent from their July highs, and losing a chunk of utility demand this winter could leave inventories bloated at the end of heating season and lead to more price pressure next year.

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## 17. RUSSIA PLEDGES TO BUILD NATURAL GAS PIPELINE BY 2015

Associated Press  
Dec. 5, 2008, 10:37AM

BELGRADE, Serbia — Russia today pledged to complete a strategic natural gas pipeline through Serbia by 2015 — despite the global financial crisis — paving the way for its immediate purchase of Serbia's state energy monopoly.

The head of Russia's oil arm of Gazprom, Alexei Miller, said in Belgrade that the Russian energy giant is to buy a 51 percent stake in Serbia's Naftna Industrija Srbije (NIS) for an estimated \$506.6 million, with the deal expected to be signed by the end of this month.

Serbia had said it would only sell the company if Russia committed to building the pipeline.

"An agreement was reached today to sign" the package deal to purchase NIS and to build the natural gas pipeline through Serbia, Miller said after his talks with Serbian President Boris Tadic.

"The contracts are 100 percent ready," Miller said, adding however that some unspecified details on the purchase of NIS still have to be negotiated.

The \$13 billion pipeline to be laid under the Black Sea would carry Russian natural gas to Bulgaria and Serbia before branching out to points in Western Europe.

Some Serbian officials had worried that the Russian plans could be postponed or canceled amid the global financial crisis, and had demanded guarantees that the pipeline would be built. Serbian government officials had said NIS must not be sold to Russia until it starts building the pipeline.

Miller said the pipeline would be completed by December 2015 at the latest, but maybe even earlier, toward the end of 2013.

Dusan Bajatovic, the head of NIS, said that the fact the energy deal will be signed in a package "represents firm guarantees that the pipeline would be built."

Russia has offered about \$500 million for a controlling share in NIS, and about another \$625 million to modernize the company.

But Serbian Economy Minister Mladjan Dinkic, who has opposed the deal all along, has said in the past such an offer is only about one-fifth the company's market value.

Dinkic and other pro-Western ministers in the government fear that Russia's takeover of the country's energy sector would dramatically increase Moscow's political influence in the Balkan country.

The Gazprom pipeline would undercut an alternative project — the Nabucco pipeline planned for carrying natural gas westward from the Caucasus. That project is backed by the United States and the European Union as a way to ease Europe's energy reliance on Russia.

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## 18. RANK THE TOP 10 OIL STORIES OF 2008

Posted by Robert Rapier

December 5, 2008 - 9:34pm

Although lately I find myself struggling to find enough time to write, one of the stories I hope to write is a post covering the top energy stories of 2008. Around that theme, Platts just put up a request for reader input on the top oil industry stories of 2008. Their poll runs until Christmas:

Below is the way I would rank the Top 10. I had an easy time ranking the top five, but then it was more difficult to sort them out.

My top 10 oil industry stories of 2008:

1. Crude prices soar in 1H, WTI tops \$147, Brent right behind
2. Prices collapse below \$50 in 2H as demand retreats
3. Ethanol's struggles: VeraSun bankruptcy, others barely profitable, spreads collapse
4. Push begins to lift offshore drilling ban in US; Obama and McCain differ on approach
5. Capital crunch and low prices lead to deferred investment
6. Shale gas supply in US surges, a new factor in supply/demand balance
7. Credit crunch slows activity for once free-wheeling traders
8. Diesel surges, gasoline/naphtha plunge; traditional cracks skewed
9. Russian oil output to fall in 2008, first time in a decade
10. Brazil subsalt finds continue to lift nation's upstream prospects

A couple of options that weren't on the list (I placed them in the suggestion box) were:

- \* Peak oil becomes fashionable, then unfashionable again
- \* Obama elected; potential major impact on energy policy

Feel free to share your own input. What other stories do you consider to be Top 10 material (not limited to the oil industry)?

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## 19. CARBON: THE BIOCHAR SOLUTION

By Lisa Abend  
Time Magazine  
Thursday, Dec. 04, 2008

On his farm in the hills of West Virginia, Josh Frye isn't raising chickens just for meat. He is also raising them for their manure. Through a process that some scientists tout as a solution to climate change, food shortages and the energy crisis, Frye is transforming the waste into a charcoal-like substance called biochar that in the long run could be far better for the world than chicken nuggets. "It might look like this is just a poultry farm," says Frye. "But it's a char farm too."

Burn almost any kind of organic material — corn husks, hazelnut shells, bamboo and, yes, even chicken manure — in an oxygen-depleted process called pyrolysis, and you generate gases and heat that can be

used as energy. What remains is a solid — biochar — that sequesters carbon, keeping CO<sub>2</sub> out of the atmosphere. In principle, at least, you create energy in a way that is not just carbon neutral, but carbon negative.

And the benefits only begin there. When added to thin and acidic soil of the kind found in much of South America and Africa, char produces higher agricultural yields and lets farmers cut down on costly, petroleum-heavy fertilizers. Subsistence farmers seeking better soil have traditionally relied on slash-and-burn agriculture, which generates greenhouse gases and decimates forests. If instead those farmers slow-smoldered their agricultural waste to produce charcoal — in effect, slash-and-char agriculture — they could fertilize existing plots instead of clearing more land. This in turn would reduce emissions in the atmosphere, and so on in a virtuous circle of environmental renewal.

Could it really be that simple? It appears to have been for the original inhabitants of the Amazon basin. In the 16th century, Spanish explorer Francisco de Orellana wrote home describing the remarkably fertile lands he had discovered there. In the 19th century, American and Canadian geologists uncovered the reason: bands of terra preta (dark earth), which locals continued to cultivate successfully. Research revealed that the original inhabitants of the region had added charred wood and leaves — biochar — to their lands.

Centuries later, it was still there, enriching the soil. "You couldn't help but notice it. There would be all this poor, grayish soil, and then, right next to it, a tract of black that was several meters deep," says Johannes Lehmann, a soil scientist who worked in Manaus, Brazil, in the late 1990s. After he left the Amazon in 2000 for a job at Cornell University, N.Y., Lehmann started wondering what would happen if farmers today could make their own terra preta. He has found one answer in a field trial in Kenya, where 45 farmers achieved twice the yield in their corn crops with biochar than with conventional fertilizers.

Epidra, a private firm in Athens, Ga., is exploring larger-scale applications, such as pyrolysis systems that can produce both enough energy to power a tractor and a biochar tailored to improve particular soils. "If you're going to grow food, you have to do it responsibly," says Bob Hawkins, Epidra's project manager. "And one way of doing that is to use it to generate sustainable energy." A prototype can turn a ton of ground peanut shells into 600 lb. (270 kg) of biochar, with energy as the bonus.

Biochar's ability to sequester CO<sub>2</sub> has given new urgency to such research. "Reducing emissions isn't enough — we have to draw down the carbon stock in the atmosphere," says Tim Flannery, chair of the Copenhagen Climate Council, a consortium of scientists and business leaders linked to next year's United Nations Climate Summit. "And for that, slow pyrolysis biochar is a superior solution to anything else that's been proposed." Cornell's Lehmann is even more emphatic. "If biochar could be massively applied around the globe," he says, "we could end the emissions problem in one to two years."

Not everyone agrees. "Biochar isn't a silver bullet, not by a long shot," says Dominic Woolf, a researcher at Swansea University in Wales. "You have to look at the big picture: pyrolysis itself produces carbon dioxide emissions, and you have to consider that when you try to determine biochar's capacity for sequestration." Lehmann says he welcomes the doubts, and notes that addressing them requires "investors willing to take the risk." Which is where chicken farmer Frye, with his small biochar operation, comes in as one of the few people out there actually making a business of it. With a pyrolysis unit that can create 3-4 tons of biochar a day, he generates enough energy to heat his hen houses; and he sells the char as fertilizer for \$600 a ton. For Lehmann, biochar's benefits aren't so much a scientific novelty as a return to basics. "From cave drawings to iron smelting, charcoal has always played an important role in the development of civilization," he says. "Maybe it's about to do it again."

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## 20. WASHINGTON REPORT: ELECTRIC CARS AND BAILOUTS

By Bill Moore

EV World publisher's perspective on the EDTA electric vehicle conference  
December 05, 2008

It wasn't a wake, but the car industry's troubles cast a long, chilling shadow over the Electric Drive Transportation Association's annual conference in Washington, D.C. this week. What should have been an upbeat, giddy victory celebration had more the mood of a hospital room where friends and relatives speak in hushed, sympathetic tones as the patient -- the auto industry -- lies critically ill.

Despite the fact that it is now widely agreed electric power is the unavoidable destiny of the automobile, a cause the EDTA and its predecessors - - as well as EV World -- have long championed, there was no self-congratulatory back-slapping, and smiles were few and far between.

Instead, one topic dominated the conversation: what would be the outcome of Senate hearings this week on Capitol Hill? Should Congress give the Big Three \$34 billion in loan guarantees or let them suffer the fate the fabled "free market" inflicts on all those who flout its principle tenet: adapt or die?

On the last day of the conference, attendees paused to watch a television monitor carrying CNN's feed from the hearings, while down on the exhibition floor, exhibitors sat alone tapping away at laptops or stood in small knots discussing business and swapping personal stories. Around them sat silent examples of electric car technology from a pair of GEM neighborhood electric vehicles (NEVs) to an Orion hybrid-electric transit bus.

Missing from the exhibit floor was Ford and Chrysler and Honda and Nissan. Apparently, they had budgeted their money for more consumer-oriented venues like the Los Angeles Auto Show, which may not only be a reflection of their constrained finances, but also a shift in focus that could be interpreted to suggest the electric car concept has moved from the theoretical to the practical. Ford did announce, as part of their bailout plan, the introduction of a least one all-electric car. Daimler -- now "divorced" from Chrysler -- showed an aging F-Cell fuel cell sedan.

The inevitable question everyone asks during and after such conferences is, "What was the most interesting thing you saw or learned?"

To be honest, there were no surprises vehicle-wise, apart from Mitsubishi having their i MiEV available for the Ride & Drive session the opening afternoon of the conference. While I arrived too late for the Ride & Drive, reliable witnesses reported people stood 15-deep to get a drive or ride in it, while other vehicles had one or two waiting to experience hybrid or electric rides. GM did have their roped-off Volt on display, along with a Saturn VUE hybrid and hydrogen fuel cell Equinox. Toyota had a plug-in Prius on display, along with several Lexus hybrids, but it seemed to me they drew little attention. I saw no senior Toyota executives during the event. One suspects they may have wanted to maintain an continent's-length-distance from the circus on Capitol Hill. Ditto for Honda and Nissan.

Smith Electric -- the UK electric truck maker -- did bring two of their vehicles and there was a hybrid-electric bucket truck on display. Modec, another UK-based electric truck maker had a representative present, but economizing measures meant their truck had to stay in south Florida.

Miles Electric Vehicles had both their ZX40 series low-speed electric car and electric truck at the show, the latter of which is proving quite popular. The company's Doug Rosen was told by his Oxnard, California import auto prep vendor, who also handles Range Rover, Volvo and Jaguar, that it appears in December 2008, he will prep more Miles vehicles for delivery than the three other companies combined.

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EnerDel brought their Th!nk city electric car equipped with their lithium ion battery pack. Their display was nearly rivaled by the Johnson Controls - Saft display, except the latter didn't have an electric car to show off.

Columbia ParCar brought their Mega electric truck, which it is now building under license from the French manufacturer. Ez-Go also had a golf car on display. Electric industrial equipment distributor Werres Corporation brought along a Chinese mini-mini van and e-Ride truck, both all-electric, both low-speed electric vehicles suitable only for non-road applications.

On a more distressing note, ElectroEnergy's Michael Reed confided in me -- and he mentioned this during his presentation, so I can share it with you -- that his company is on the verge of declaring bankruptcy. Although he has some \$7 million worth of orders in hand for his firm's 18650 lithium ion cells, the company is out of cash. The one investor he was counting on got cold feed when Wall Street went into a tailspin. A second investor just had a heart attack while on vacation in Hawaii. It was just last spring when Reed took a bus-load of us over to see his newly-opened plant outside of Gainesville, Florida, which had sat idle for nearly a decade after its original owner shut it down before it even began commercial production.

As I told the listeners to Wisconsin Public Radio during a telephone interview I did the last day of the conference, you can count on one hand the number of advanced lithium ion cell manufacturers here in the United States. If ElectroEnergy goes under, that will be one less.

Electrovaya's girl wonder, Gitanjali DasGupta, was also there standing in for her father, Dr. Sanka DasGupta with half her display booth lost somewhere in transit. And when the good doctor didn't show for

his panel presentation, she stepped in. As is her usual practice with me, however, she commented little on future developments, deferring to her father instead. The company is working closely with Tata, the Indian carmaker, and the Norwegian firm Miljø Innovasjon to develop an electric car based on Tata's Indica. It is also working on its own Chinese-based electric car in collaboration with the Chang'an Automobile Group.

## Electric Is Back!

Organizationally, the 2008 EDTA conference was well done, even if the recession (officially announced just before the event started) and the Senate hearings did seem to cast a dark pale over it. The convention center is superbly located on the D.C. Metro's Yellow light rail line, the same line that takes you directly to National Airport, across the Potomac. You get off at the Mt. Vernon and 7th Street underground station, take the escalator up to the surface and walk directly into the center.

The event kicked off with a pre-conference panel keyed by Senator Byron Dorgan from North Dakota, home of GreenElectricMobility (formerly Global Electric Motorcars). I arrived -- suitcase still in hand -- to find the Senator in animated discussion in the exhibition hall with GEM President Rick Kasper and EDTA President Brian Wynne discussing Boone Pickens energy plan, which I gather the Senator wasn't entirely onboard with.

The official opening plenary session, featuring Deputy Assistant Secretary David Rodgers, Volt product line manager Tony Posawatz, and Gridpoint COO Karl Lewis, gave this year's conference an inarguable plug-in/electric car flavor once again after years of hybrid vehicle focus. Posawatz spoke of GM's commitment to extended range electric vehicles (EREVs), the first of which is the Volt. Gridpoint's business model is to serve as the middleman between the utility and electric car owner, allowing the utility to optimize charging the customers plug-in hybrid, EREV or electric car.

Coulomb Technologies was on hand -- along with a plug-in Prius converted, I was told, by Pat's Garage in San Francisco -- to show their wares and talk to potential distributors. Over at Argonne Lab's booth, new father and indefatigable electric car engineer Ted Bohm was demonstrating a Swedish-built public charging kiosk the government lab in Chicago is testing.

The plenary session was followed by the pre-requisite technical sessions devoted to topics like "Renewables on the Road: Greening the Grid and the Highway with Plug-in Electric Drive" and "Breakthroughs in Energy Storage" -- and no, EESstor still wasn't there and neither was ZENN.

Hon. Dennis Lister, former Environment Minister, Bermuda with Miles electric truck

## Personal Business

With EDTA's approval, I had planned to record some of these presentations, but poor lighting conditions and personal circumstances prevented it. (I was able to video record the plenaries, however). A cellphone call pulled me out of the Greening the Grid panel to rendezvous with a client, followed quickly by a second call to meet up with the former environment minister for Bermuda, with whom I had the pleasure to having lunch. Our EV World Associates consulting group had helped arrange for him to acquire a Miles electric truck for use on the island.

After the opening evening reception, Ron Gompertz, who runs EcoAutos in Bozeman, Montana, and I went on the hunt for a USB cable I needed and Chinese noodles, during which time we discussed the book he is encouraging me to write. I've banged out an introduction and am whipping together a chapter outline. Ron, who has had his own modest publishing success with *Chrismukkah: Everything You Need to Celebrate the Hybrid Holiday*, is mentoring me and acting as my interim editor. He believes he may already have a possible publisher lined up, assuming I can create a compelling narrative and treatment.

Wednesday evening I spent in a great little pub on the U Street Corridor in DC with Jigar Shah, the founder of SunEdison, from which he has now formerly resigned -- "They've now become so successful, I don't need to be there anymore" -- to take time to write a book about the power of the individual to affect change -- something he certainly did -- and to think about his next business venture.

I ran into many old acquaintances from EV Voices blogger Joe Lado to Jonathan Shapero, who saved the day by finding me some 9-volt batteries after the one in the wireless audio receiver died during the middle of Secretary Rodger's speech, to Chelsea Sexton, to former GM chairman and head of ECD Bob Stempel. I even ran into Bob Purcell, who a decade ago ran the EV1 program at GM. He just retired and is looking to return to the EV world. He'll be a great addition.

Add to the list Gary Glocher, David Goldstein, Felix Kramer (CalCars) and Steve Lough (Cascadia Institute) also flew out for the event, Felix to advocate for his plug-in prepayment idea. Dr. Andy Frank, the father of the plug-in hybrid, was being tailed by a documentary film crew, but we did get to speak briefly.

Perhaps the most intriguing event for me personally, however, was when Tony Posawatz suggested I be at the Senate Russell Office Building at 9:30 AM, Thursday, December 4th. This is when the Big Three CEO's were to arrive for the second round of Senate hearings. I arranged to do only the first 45-minutes of the Wisconsin Public Radio interview, instead of the whole hour (8am-9am) in order to have time to grab a cab for Capitol Hill.

When I arrived with my tiny tripod and even smaller Sony HD video camera, I found myself in a swelling pack of television and radio crews armed with huge, shoulder held-cameras and fishing pole-like microphone booms. There I was with CNN and Fox News, as well as various Japanese TV crews.

While the conference went soberly about its business in the Washington Convention Center several miles away, here at the Russell Senate Office Building, GM CEO Rick Wagoner arrived in a Chevy Cruise "mule" equipped with the Volt E-Flex extended range electric drive. However, his driver let him, Senator Carl Levin and his brother Representative Sander Levin out at the wrong building! Swarmed with the media in tow, the three men quick-marched up the street and into the first door they could find. Unfortunately, it was the wrong door. Wagoner was supposed to arrive and use the door (see above photo) where I and the rest of the media had been told to stand.

Chrysler CEO Robert Nardelli pulled up -- at the right door -- behind the wheel of their plug-in hybrid Jeep Wrangler conversion, the same one I'd just seen in LA. Instead of rushing into the building, however, he diplomatically stopped to make a statement to the media.

Ford President Alan Mulally arrived fashionably late in a non-descript, plain white Ford Escape Hybrid. He climbed out of the SUV, briefly acknowledged the cameras and without further word, disappeared inside the building.

An AP radio reporter, seeing my EDTA badge, commented he'd been suggesting his people visit the event for the last two days. What he would have found would hardly have compared to the titillating excitement of seeing three harried CEOs shuffling hurriedly through a veritable gantlet of video cameras as they made for the momentary sanctuary behind the polished brass doors.

EDTA 2008 was quiet, dignified and very business-like with maybe 500 people in attendance. Perhaps the giddy, adolescent days of the EV1 with its aura of celebrity drivers - Mel Gibson, Ted Danson, Danny Devito, Jack Nicholson, etc. -- in the 1990s are long behind us. Now the industry is down in the trenches, fighting a war of both transformation and survival. The question isn't anymore about developing the technology, it's about how to do it profitably. Clearly, the vehicles work; the annual Ride & Drive events prove that. Sure there are still hurdles to be overcome: during the conference I was shown the photo of a brand new Lexus 600h that had a huge hole in the hood where it appears the inverter had went up in flames. The cause is yet unknown.

But the real question now is, how do we move from experimentation and demonstration to production and sales? How do we make this technology affordable -- and profitable -- enough so buyers will accept it and carmakers will want to build it?

When we've figured that out, maybe we can have a real blow-out of a celebration that even a jaded media will be willing to cover.

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