



Peak Oil News

A Compilation of New Developments, Analysis, and Web Postings

[Tom Whipple](#), Editor

Sunday, December 07, 2008

Current Developments

[1. OPEC HEAD PREDICTS OUTPUT CUTS](#)

Associated Press

December 6, 2008, 1:37 P.M. Et

ALGIERS, Algeria -- Oil markets should brace for a surprise decision on output cuts when OPEC meets Dec. 17, the cartel's president said Saturday, suggesting that reductions could be deeper than expected. "A consensus has formed for a significant reduction of production levels" by the 14-member Organization of Petroleum Exporting Countries, OPEC President Chakib Khelil told the Associated Press. The OPEC head would not discuss how deep the output cut would be, but said it could be "severe," and noted that some analysts are predicting cuts of as much as 2 million barrels per day. An output decision that startles markets would help bolster plunging oil rates, Mr. Khelil said. "The best way is to surprise them," he said. "I hope it (the decision) will." Oil prices settled at a four-year low on Friday of \$40.81 a barrel. In July, prices peaked at record highs above \$140 a barrel.

[2. IRAN OPEC GOV: INADEQUATE INVEST IN OIL WILL BRING SUPPLY BOTTLENECK-REPORT](#)

TEHRAN -(Dow Jones)- Iran's governor to the Organization of Petroleum Exporting Countries said Saturday that a decline in investments in oil production will lead to tightened oil supplies and a crude oil price rise in the future, the semi-official Isna news agency reports Saturday. "Inadequate investment in the (oil) production sector will be a factor in an oil price jump in the future," Mohammad Ali Khatibi said, according to Isna. Iran's OPEC governor added that a reduction or halt in investments in the oil sector will in the future lead to bottlenecks in global oil supply, reported Isna. Khatibi's comments follow a meeting by OPEC members in Cairo last Saturday, at which the group decided to wait until a scheduled Dec. 17 meeting in Oran, Algeria, to decide whether to cut output further in the wake of the global economic crisis and declining oil demand. OPEC made a decision in late October to reduce output by 1.5 million barrels a day in a bid to curb consistently declining oil prices.

[3. AMBITIOUS PROJECTS DRIVE SAUDI \\$75 OIL POLICY](#)

Reuters

Web posted at: 12/6/2008 0:41:5

RIYADH: Saudi Arabia's newly declared \$75 a barrel target price for oil aims to ensure crude export revenues can fund ambitious development plans in the kingdom. The Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz last Saturday said that \$75 was a fair price for oil, the first time in years that the world's top oil exporter has named its price. The 85-year-old leader is determined to avoid periods of fiscal irresponsibility that have marred the rule of previous Saudi monarchs, analysts say. "King Abdullah is thrifty. He hates borrowing," said one source who has spent more than 20 years working at the kingdom's central bank, the Saudi Arabian Monetary Agency (SAMA). The country has channeled tens of billions of dollars from surpluses generated by the surge in oil prices over the past six years to reduce debt, which fell to 19 percent of 2007 gross domestic product (GDP) from 105 percent in 1999. "Surplus money was allocated to bring down debt with a clear conviction from the king," said John Sfakianakis, chief economist at SABB bank, HSBC's Saudi subsidiary.

4. KUWAIT MAY SCRAP NEW REFINERY PROJECT

Trade Arabia

Kuwait: Sat, 06 Dec 2008

Kuwait may scrap a project to build the country's fourth refinery with a capacity of 615,000 barrels per day, which has faced opposition in parliament, it was reported. 'A government figure revealed ... what he called a government plan to cancel the fourth refinery project and replace it with another which includes a revamping of the Shuaiba and (Mina) Al Ahmadi refineries,' the daily Al Seyassah said on Friday. The source said the decision may be taken 'especially after the audit bureau confirmed that the new refinery (project) was not feasible from the economic and technical points of view,' the newspaper said. Kuwait has awarded contracts worth \$8.4 billion on the project, including a package worth \$4bn to Japan's JGC Corporation and South Korea's GS Engineering and Construction Corporation.

5. ITALY GOVT SAYS LIBYA EXPRESSES INTEREST TO BUY STAKE IN ENI

ROME (Dow Jones)--The Italian government said Saturday that Libya informed it of the interest to buy a stake in the country's biggest oil company Eni SpA (E), after relations with the North African country improved recently. In a joint statement with the Libyan Energy Fund, the North African country told Italy it conditioned the unspecified stake purchase on the Rome government not opposing it. "The Italian government has acknowledge the interest and the economic scope of the proposed investment...and in the declared absence of any intention to interfere in the management of the company," said the statement. It didn't say when the equity stake buy is planned. The Libyan government is aware of the voting limits in Eni, the statement added. The Rome-based company is controlled by the Italian government with a 30.2% stake.

6. ARAMCO WILL CUT COSTS, NOT DELAY PROJECTS'

Dow Jones Newswires

KUALA LUMPUR: Saudi Arabia's state-owned oil giant will be looking to cut costs rather than delay or abandon oil projects amid the fall in global oil prices, a senior company executive has said. "Construction is one area where we can reduce costs – steel prices are down 60%, for example," Abdulla A Al-Naim, vice president for Petroleum Engineering and Development at Saudi Arabian Oil Co, told Dow Jones Newswires. The company, also known as Saudi Aramco, is the world's largest oil company by output. "The only way to invest is (for the) long term; we think oil prices will recover within a year – some people are even saying five to six months," he said. Al-Naim, who spoke on the sidelines of the International Petroleum Technology Conference, made the remarks amid an unprecedented oil price slide that has forced several international and national oil companies to announce project delays or cancellations.

7. NIGERIA: NATION LOSES N25BN TO PIRACY, SEA ROBBERIES

Gboyega Akinsanmi

This Day

6 December 2008

Lagos — The rising spate of pirate activities, sea robberies, poaching, bunkering and other illegal operations in Nigeria's territorial waters and seas (with the exception of illegal oil bunkering in the Niger Delta region) have cost the country more than N25 billion in less than four years. President of the Nigerian Trawler Owners Association (NITOA), Mrs. Margaret Orakwusi made this revelation yesterday in Lagos at a meeting of the Inter-agency Maritime Security Task Force on Acts of Illegality in Nigerian Waters (IAMSTAF). Also, key factors including ill-security capacity and bad maritime governance were cited as the driving forces of increasing pirate attacks, sea robberies and other illicit activities of individual and corporate bodies (both domestic and foreign) in Nigeria's coastal regions.

8. OBAMA PLEDGES PUBLIC WORKS ON A VAST SCALE

By Peter Baker And John M. Broder
NY Times
December 7, 2008

WASHINGTON — President-elect Barack Obama promised Saturday to create the largest public works construction program since the inception of the interstate highway system a half century ago as he seeks to put together a plan to resuscitate the reeling economy. With jobs evaporating and the recession deepening, Mr. Obama began highlighting elements of the economic recovery program he is trying to fashion with Congressional leaders in hopes of being able to enact it shortly after being sworn in on Jan. 20. His address on Saturday followed the report on Friday indicating that the country lost 533,000 jobs in November alone, bringing the total number of jobs lost over the past year to nearly 2 million. Mr. Obama's remarks showcased his ambition to expand the definition of traditional work programs for the middle class, like infrastructure projects to repair roads and bridges, to include new-era jobs in technology and so-called green jobs that reduce energy use and global warming emissions. "We need action — and action now," Mr. Obama said in an address broadcast Saturday morning on radio and YouTube.

9. OBAMA OFFERS FIRST LOOK AT MASSIVE PLAN TO CREATE JOBS

Project Would Be the Largest Since the Interstate System

By Michael D. Shear
Washington Post Staff Writer
Sunday, December 7, 2008; A01

On the heels of more grim unemployment news, President-elect Barack Obama yesterday offered the first glimpse of what would be the largest public works program since President Dwight D. Eisenhower created the federal interstate system in the 1950s. Obama said the massive government spending program he proposes to lift the country out of economic recession will include a renewed effort to make public buildings energy-efficient, rebuild the nation's highways, renovate aging schools and install computers in classrooms, extend high-speed Internet to underserved areas and modernize hospitals by giving them access to electronic medical records. "We need to act with the urgency this moment demands to save or create at least 2 1/2 million jobs so that the nearly 2 million Americans who've lost them know that they have a future," Obama said in his weekly address, broadcast on the radio and the Internet.

10. DETROIT BAILOUT TALKS SLOW OVER 'CZAR' ROLE

By Greg Hitt
WSJ
December 6, 2008, 10:51 P.M. Et

WASHINGTON--Negotiations over a government rescue of the Big Three automakers slowed Saturday as Congress and the White House debated over the role of an "auto czar" who would oversee a restructuring of the industry. Democratic leaders on Capitol Hill want action on the legislation as soon as Tuesday, hoping to avoid a collapse of one or more companies that are big parts of the nation's manufacturing base. Both the White House and top Democratic leaders in Congress are zeroing in on a package that would provide about \$15 billion in short-term financing, enough to carry the companies into March of next year. But big issues including federal oversight have to be worked out first. The White House is proposing to create a "Financial Viability Advisor" in the Department of Commerce who would be authorized immediately to begin negotiating plans to return each company to economic viability. The advisor would be authorized to approve short-term financing for the industry, drawn from an existing loan program meant to help the Big Three retool to meet higher fuel economy standards, according to a draft of the administration plan.

11. REPUBLICANS DIVIDED ON AID TO AUTOMAKERS

By David M. Herszenhorn
NY Times
December 7, 2008

WASHINGTON — As Senate staff members worked through the weekend to draft legislation for a taxpayer rescue of the imperiled American automobile industry, Republicans who have the power to scuttle the plan offered mixed reactions to the preliminary details on Saturday. Senator Christopher S. Bond, Republican of Missouri — who with Senator Carl Levin, Democrat of Michigan, proposed a plan last month that was nearly identical to the one Congressional Democrats have now endorsed — said he was pleased. “I’m glad the Democratic leadership has embraced the principles of the Bond-Levin bill to hold auto companies accountable, protect taxpayers and save millions of American jobs as we head into the holiday season,” Mr. Bond said in a statement. But Senator Bob Corker, Republican of Tennessee, who sharply questioned executives of Detroit’s Big Three auto companies at a hearing on Thursday, said he was unhappy with the way the plan seemed to be shaping up on the Senate banking committee.

12. DETROIT HAS RUN OUT OF ROAD. THE CAR'S FUTURE LIES IN EUROPE

Will Hutton
The Observer,
Sunday December 7 2008

The car was the symbol of the prewar 20th century. Henry Ford's Model T, Volkswagen's people's car and even Britain's Morris Oxford were more than just industrial products. Suddenly, industrialisation was able to offer the mass of consumers cheap, convenient and individual mobility. The car changed industrial civilisations and their cultures. Detroit was the undisputed centre of the industry. It manufactured more cars than anywhere else - four out of five across the globe as late as the mid 1950s. Its cars shaped American society. Americans yearned to climb into its Buicks, Cadillacs and Mustangs. The cars denoted your identity and your ambitions. The mobility spawned America's vast, sprawling suburbs. 'What is good for General Motors is good for America,' said its then chairman and chief executive Charlie Wilson. He captured an important truth.

13. AUTOMAKERS FACE COSTLY ROAD TO CUT UNPOPULAR BRANDS

Contracts and State Laws Protect Large Investments by Dealerships

By Steven Mufson and Thomas Heath
Washington Post Staff Writers
Sunday, December 7, 2008; A01

The Frank Kent Hummer dealership -- complete with an indoor waterfall and a massive curved roof reminiscent of an aircraft hanger -- opened in Fort Worth in the spring of 2005 with hopes as high as the giant "H" that dominates its entrance. Three years later, General Motors wants to get rid of its lagging Hummer brand. But what's good for GM in this case may not be good for its 400 Hummer dealers, who have invested millions of dollars with the expectation of selling a line of new products for years to come. Moreover, auto dealerships are protected by stringent franchise laws around the country and by contracts with manufacturers that make it difficult -- and potentially costly -- for automakers to walk away from brands. And dealers, who are politically powerful, are mobilizing elected officials to provide further cover as the industry prepares for a huge overhaul.

14. INDUSTRY SAYS INVESTMENT WILL CONTINUE IN GULF DRILLING, DESPITE DECLINING FUEL PRICES

By Jen Degregorio
The Times-Picayune
Friday December 05, 2008, 6:36 PM

Money will likely continue to flow into drilling the deepest regions of the Gulf of Mexico, even as the energy industry cuts costs to deal with a global economic downturn, according to analysts who spoke

Friday at an energy economics forum in downtown New Orleans. The deepwater of the Gulf, which refers to areas more than 1,000 feet under water, is thought to hold some of the largest reserves of untapped fuel in the world. Some estimates indicate that there are still 40 billion barrels of oil left to be found in the Gulf, more than enough to feed the United States for five years. But companies are having to travel farther offshore to tap those resources, which require more time and expensive technology to produce than fuel unearthed from shallower waters.

Discussion and Analysis

15. CRUDE'S COLLAPSE OILED THE BANK'S WHEELS

Economic Outlook

David Smith
The Sunday Times
December 7, 2008

Another week, another point off Bank rate, coupled with a 0.75 point cut by the European Central Bank. The dive in official interest rates towards zero is an extraordinary facet of an extraordinary time. After a cascade of bad news, notably very weak purchasing managers' surveys for manufacturing, construction and services, the Bank had no option but to go for another cut that only a few weeks ago would have been regarded as unthinkable. Activity is sliding fast everywhere, and certainly in all advanced economies. The OECD reckons the fourth quarter will see the biggest gross-domestic-product declines in this recession (Britain contracted by 0.5% in the third) and it feels that way. Much depends on when policy actions, including aggressive rate cuts, start to have an impact.

16. UK INDUSTRY ON PEAK OIL: VIRGIN, YAHOO AND OTHERS RAISE THE ALARM

By Sami Grover
Carrboro, NC, USA
12.5.08
Tree Hugger

Big Business Starts Warning of an Oil Crunch

While some in the business world have recognised and spoken out about the threat of peak oil – from Shell CEO Jeroen van der Veer's prediction that energy depletion could hit us in 7 years, through to oil banker Matt Simmon's warning that the energy crisis could dwarf the financial crunch soon - in general the silence from corporations on this issue has been deafening. This is a particularly puzzling state of affairs when you consider how dependent our entire economy is on cheap oil. But there are signs that

things are changing – a report, which Matt posted about last week, from the newly formed UK-based Industry Taskforce on Peak Oil and Energy Security, has now been launched at the London Stock Exchange. The video above shows the kind of heavy hitters involved in this initiative - including Richard Branson of Virgin - as they aim to raise awareness of the threat, and what can be done to counter it. This from the group's website:

17. PEAK OIL STILL RELEVANT? MORE THAN EVER.

By Daniel Lerch
Post Carbon Institute
December 4, 2008 - 7:07pm.



Before the Thanksgiving holiday we got an email from William M., a reader of our [newsletter](#), asking, **"Why if oil supply is decreasing and demand is increasing is the price collapsing? What is happening? Is Peak Oil therefore a myth?"** I addressed parts of this question in an [October blog post](#) but there's more to dig in to, particularly regarding some common misconceptions about what's happening with supply and demand. I'll take William's question as a framework for addressing some of these issues: **"IF OIL SUPPLY IS DECREASING..."** Strictly speaking, the global oil supply has been decreasing since we started drilling in the mid-1800s. What we *really* care about is the ever-increasing *flow* of oil from

underground reservoirs to markets because that's what feeds ever-increasing global demand. The oil industry generally talks about 'production' (i.e., extracting oil out of the ground and 'producing' it into a usable barrel), so this part of the question is, more accurately stated, "If global oil *production* is declining..."

1. OPEC HEAD PREDICTS OUTPUT CUTS

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The OPEC head would not discuss how deep the output cut would be, but said it could be "severe," and noted that some analysts are predicting cuts of as much as 2 million barrels per day.

An output decision that startles markets would help bolster plunging oil rates, Mr. Khelil said. "The best way is to surprise them," he said. "I hope it (the decision) will."

Oil prices settled at a four-year low on Friday of \$40.81 a barrel. In July, prices peaked at record highs above \$140 a barrel.

OPEC previously announced a 1.5 million barrel-a-day reduction in October, but the decision failed to halt the fall in prices. Markets have been expecting another cut at the Dec. 17 summit.

"The stronger the decision, the faster prices will pick up," Mr. Khelil said.

Mr. Khelil urged oil producers outside OPEC to help the cartel regulate prices, especially Russia, which has said it could sign a cooperation memorandum with the cartel in the Algerian city of Oran.

"We hope that Russia will apply (quota decisions) .. as if it were an OPEC member," Mr. Khelil said.

He acknowledged the cartel has little control over prices at the moment because of the slumping world economy, which has considerably reduced demand for oil. He pointed out that cartel nations only produce 40% of the world's oil. "The probability that we can adjust supply to demand is very weak," he said. "In an unstable system, you react by trial and error."

Oil prices that remain too low would start hurting wealthy oil producers, he warned, adding to the global recession. The International Monetary Fund and several stock markets have asked wealthy producers to reinvest some of the cash they piled up when oil was at over \$100 per barrel.

If oil is sold at below production costs, oil-producing nations would have to end their investments abroad and could themselves enter a recession, Mr. Khelil warned. "We'd then see a debacle" worldwide, he said.

Oil stability is crucial to a country like Algeria, where oil and natural gas make up 97% of exports. Mr. Khelil said Algeria based its 2009 budget on oil at \$37 per barrel, but would have to cut back on large infrastructure projects if the price goes lower.

In Baghdad, a senior Iraqi official warned Saturday that current prices are not healthy for Iraq's economy. "OPEC needs to take quick action to reduce the offered quantities because the market is oversupplied," said Falah al-Amiri, head of the state oil marketing arm SOMO.

Mr. Khelil, meanwhile, expects demand would rise by mid-2009. "It's certain we'll see prices rise by that point," he said.

A fair price for oil would be at "at least \$70" per barrel, the OPEC chief said.

Too-low prices are not in the interest of oil-consuming countries either, he said, because they hinder investment and exploration for future production. He noted that several offshore drilling projects were already being postponed around the world.

"We'll need these projects to meet demand in two or three years," he said.

2. IRAN OPEC GOV: INADEQUATE INVEST IN OIL WILL BRING SUPPLY BOTTLENECK-REPORT

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"Inadequate investment in the (oil) production sector will be a factor in an oil price jump in the future," Mohammad Ali Khatibi said, according to Isna.

Iran's OPEC governor added that a reduction or halt in investments in the oil sector will in the future lead to bottlenecks in global oil supply, reported Isna. Khatibi's comments follow a meeting by OPEC members in Cairo last Saturday, at which the group decided to wait until a scheduled Dec. 17 meeting in Oran, Algeria, to decide whether to cut output further in the wake of the global economic crisis and declining oil demand.

OPEC made a decision in late October to reduce output by 1.5 million barrels a day in a bid to curb consistently declining oil prices.

On Friday, crude prices settled at their lowest since December 2004. Light, sweet crude for January delivery on Friday settled \$2.86 lower at \$40.81 a barrel on the New York Mercantile Exchange. January Brent crude on the ICE futures exchange settled down \$2.54 at \$39.74 a barrel.

Iran's OPEC governor said the organization would be sure to cut output at its scheduled Dec. 17 ministerial meeting in Oran.

"Everyone is awaiting a production cut in OPEC's production ceiling at the Algeria meeting," Khatibi said, according to Isna.

3. AMBITIOUS PROJECTS DRIVE SAUDI \$75 OIL POLICY

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RIYADH: Saudi Arabia's newly declared \$75 a barrel target price for oil aims to ensure crude export revenues can fund ambitious development plans in the kingdom.

The Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz last Saturday said that \$75 was a fair price for oil, the first time in years that the world's top oil exporter has named its price. The 85-year-old leader is determined to avoid periods of fiscal irresponsibility that have marred the rule of previous Saudi monarchs, analysts say.

"King Abdullah is thrifty. He hates borrowing," said one source who has spent more than 20 years working at the kingdom's central bank, the Saudi Arabian Monetary Agency (SAMA).

The country has channeled tens of billions of dollars from surpluses generated by the surge in oil prices over the past six years to reduce debt, which fell to 19 percent of 2007 gross domestic product (GDP)

from 105 percent in 1999. "Surplus money was allocated to bring down debt with a clear conviction from the king," said John Sfakianakis, chief economist at SABB bank, HSBC's Saudi subsidiary.

Saudi Arabia has used record oil revenues over the past six years to launch an ambitious development programme to meet the needs of a rapidly-growing population that for the most part shares little of the fabled wealth of the ruling elite. Economic development is one element in the kingdom's strategy to defuse militant activity.

The government is mindful that ordinary Saudis have suffered from high inflation over the past year and millions were hit by collapses on the Saudi bourse in 2006 and 2008. With an oil price of \$75 a barrel, Saudi Arabia will not have to dig into its \$300bn of net foreign assets and foreign currency reserves to fund a projected \$400bn public spending spree over the next five years. "This will enable us to push ahead with development projects to diversify the economy and reduce dependency on oil," said Saeed al-Shaikh, chief economist at state-owned National Commercial Bank (NCB).

Analysts estimated spending next year will require a higher price of \$55-62 a barrel, up from the \$45-50 they estimated for 2008. The government does not state the budget assumption publicly. Benchmark US crude has fallen over \$100 from its July peak of over \$147 to trade at around \$46 on Thursday as oil demand falls the slowing global economy. Global oil consumption looks set to contract this year for the first time in 25 years.

OPEC, supplier of more than a third of the world's oil, has already pledged to cut supply by 2 million barrels per day since September as it scrambles to match supply to falling demand. Saudi Arabia is OPEC's most influential members and was shouldering most of the cuts.

The Saudi government would have to clip some of the \$100bn-plus the kingdom plans to spend on expanding the energy industry if prices remain low in 2009, NCB's Shaikh said. Oil Minister Ali bin Ibrahim Al Nuaimi said that \$75 would also encourage new output from marginal, higher cost sources worldwide. By setting what it saw as the fair price for its oil, the kingdom was sending a message to consumers, said Sfakianakis. "Saudi Arabia wants to maintain investments in the oil industry and \$75 seems to be reasonable in meeting demand for OPEC members to maintain these investments," Sfakianakis said.

"The announcement is a sort of disclaimer to say that with oil prices this low you can not always turn to Saudi Arabia if additional oil production is needed," he added. Saudi Arabia is the only country in the world able to bring online large volumes of crude supply quickly to deal with unexpected supply shortages.

As the kingdom shoulders most of the cuts in OPEC supply, its spare crude production capacity has risen above the 2 million b/d it keeps as a matter of policy. Saudi output stood at 8.92 million b/d in November, according to a Reuters survey, nearly 2.4 million b/d below capacity of 11.3 million b/d. The kingdom is on track to boost capacity to around 12.5 million b/d by the end of next year. □

4. KUWAIT MAY SCRAP NEW REFINERY PROJECT

Trade Arabia
Kuwait: Sat, 06 Dec 2008

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Kuwait has awarded contracts worth \$8.4 billion on the project, including a package worth \$4bn to Japan's JGC Corporation and South Korea's GS Engineering and Construction Corporation.

But final contracts to build the Al Zour refinery, valued at about \$15bn, have yet to be signed as the state audit bureau has launched a probe into whether the tender process showed irregularities.

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ROME (Dow Jones)--The Italian government said Saturday that Libya informed it of the interest to buy a stake in the country's biggest oil company Eni SpA (E), after relations with the North African country improved recently.

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"The Italian government has acknowledge the interest and the economic scope of the proposed investment...and in the declared absence of any intention to interfere in the management of the company," said the statement. It didn't say when the equity stake buy is planned.

The Libyan government is aware of the voting limits in Eni, the statement added.

The Rome-based company is controlled by the Italian government with a 30.2% stake.

Eni will keep the financial market informed of any relevant changes in its share structure in line with stock market rules, said a company spokeswoman.

According to Italian securities rules, an equity holding of 2% or more has to be declared.

Eni is the biggest international investor in Libya's vast oil industry.

Libya is a "bargain-hunter" in Italy, said Shokri Ghanem, the head of Libya's National Oil Co., at an October conference in Rome. Earlier that month, Libyan state-owned institutions took a 4.9% stake in a leading Italian bank, UniCredit SpA (UCG.MI).

In August, the two countries signed an accord ending all disputes referring to Italy's colonial past in Libya. Italy agreed to invest \$5 billion in Libya for infrastructure projects over the next 25 years.

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"The only way to invest is (for the) long term; we think oil prices will recover within a year – some people are even saying five to six months," he said.

Al-Naim, who spoke on the sidelines of the International Petroleum Technology Conference, made the remarks amid an unprecedented oil price slide that has forced several international and national oil companies to announce project delays or cancellations.

Industry analysts have warned that any underinvestment – in either upstream or downstream sectors – may cause oil prices to soar when the global economy, and thus demand for energy, recovers.

There has been speculation recently that Saudi Aramco has withdrawn investment in oil and gas projects, but Al-Naim confirmed this isn't the case. –

7. NIGERIA: NATION LOSES N25BN TO PIRACY, SEA ROBBERIES

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President of the Nigerian Trawler Owners Association (NITOA), Mrs. Margaret Orakwusi made this revelation yesterday in Lagos at a meeting of the Inter-agency Maritime Security Task Force on Acts of Illegality in Nigerian Waters (IAMSTAF).

Also, key factors including ill-security capacity and bad maritime governance were cited as the driving forces of increasing pirate attacks, sea robberies and other illicit activities of individual and corporate bodies (both domestic and foreign) in Nigeria's coastal regions.

Orakwusi told the 12-man task force that the country's fishing industry had witnessed at least 293 documented sea robberies and pirate attacks between 2003 and 2008, which she said had culminated in loss of lives and destruction of vessels and trawlers.

Speaking on what she described as a threat to Nigeria's multi-billion naira fishing business, Orakwusi told the task force, under the chairmanship of Commodore D. J. Ezeoba, that the pirates and sea robbers hijacked vessels in the country's territorial waters and forced them to pay ransom into their banks' accounts.

She lamented the refusal of the management of the banks involved to give details of the individuals (or companies) that owned the accounts into which the ransoms were paid, stating that the situation was disturbing, considering its negative consequence on the fishing industry.

She explained: "More recently, vessels have been hijacked and ransoms demanded by payment into bank accounts. The banks to which ransoms were include Fidelity Bank Plc and Intercontinental Bank Plc before the release of crew members held hostage."

Orakwusi identified Badagry and Bakassi Peninsula as Nigeria's maritime domains where the cases of pirate attacks and sea robberies "are very recurrent. In the last quarter of 2007 and the first quarter of 2008, the attacks became more rampant, resulting in the death of several crew members."

She named other hotspots of pirate activities as Lagos to Lekki Axis, Awoye-Aiyetoro-Benin River, Escravous-Forcados-Ramos-Dodo, Fishtown-Brass-Bartholomew-Barbara area, Sombreiro-Bonny-BOT/Andoni-Opobo region and Qua Iboe/Calabar/Rio Del Rey.

According to her: "Pirate attacks have continued even with the deployment of security forces, and the assurance of safety given by the government to the industry. In the spate of the attacks, 20 vessels were attacked within one week and 10 lives lost which resulted in the industry finally grinding to a halt between late 2007 and early 2008.

"As a result of increasing attacks in the last quarter of 2005, former President Olusegun Obasanjo on learning our predicament intervened and formed a National Security Committee comprising Service Chiefs and the Minister of Agriculture among others.

"Regrettably, this attempt did not achieve the desired result as the pirate attacks and sea robberies have continued unabated and have even escalated in frequency and ferocity. This is having negative effects on the industry," Orakwusi told the task force.

She said there were about 250 registered fishing trawlers in Nigeria, according to 2003/2004 records, operated by over 40 fishing companies. But she claimed that the number of trawlers and companies "has reduced by 50 percent within five years alone.

"Only 19 fishing companies are now operating with just 170 vessels. The issue of piracy and sea robberies has contributed immensely to this drastic reduction and if allowed to continue, will lead to total collapse of the fishing industry in the country.

"Indeed, communities along the fishing grounds now demand for huge money before vessels would be allowed passage. The pirates have constituted themselves into republics where settlements and clearance have to be made... This is a republic within a Republic of Nigeria.

"The implication will lead to about 500,000 job cuts and huge loss of revenue to the government. This deserves better attention from the government. The government agencies in charge of security should work with the fishing industry in terms of communication and intelligence information," Orakwusi told the task force.

The Federal Government recently set up the task force (IANSTAF) to investigate diverse maritime security threats, all illegal activities and security breaches in the country's coastal waters and take immediate actions to address such. Other mandates of the task force which commenced sitting November 25 include: to review and strengthen the operations of security operators and regulatory agencies in the country's ports; investigate and monitor the activities of licensed private jetty operators and sanction those found to be engaged in acts of illegalities and ensure immediate closure of all unlicensed and illegal private jetties.

8. OBAMA PLEDGES PUBLIC WORKS ON A VAST SCALE

By Peter Baker And John M. Broder
NY Times
December 7, 2008

WASHINGTON — President-elect Barack Obama promised Saturday to create the largest public works construction program since the inception of the interstate highway system a half century ago as he seeks to put together a plan to resuscitate the reeling economy.

With jobs evaporating and the recession deepening, Mr. Obama began highlighting elements of the economic recovery program he is trying to fashion with Congressional leaders in hopes of being able to enact it shortly after being sworn in on Jan. 20. His address on Saturday followed the report on Friday indicating that the country lost 533,000 jobs in November alone, bringing the total number of jobs lost over the past year to nearly 2 million.

Mr. Obama's remarks showcased his ambition to expand the definition of traditional work programs for the middle class, like infrastructure projects to repair roads and bridges, to include new-era jobs in technology and so-called green jobs that reduce energy use and global warming emissions. "We need action — and action now," Mr. Obama said in an address broadcast Saturday morning on radio and YouTube.

Mr. Obama's plan, if enacted, would be in part a government-directed industrial policy, with lawmakers and administration officials picking winners and losers among private projects and raining large amounts of taxpayer money on them.

It would cover a range of programs to expand broadband Internet access, to make government buildings more energy efficient, to improve information technology at hospitals and doctors' offices, and to upgrade computers in schools.

"It is unacceptable that the United States ranks 15th in the world in broadband adoption," Mr. Obama said. "Here, in the country that invented the Internet, every child should have the chance to get online."

President Bush and many conservative economists have opposed such large-scale government intervention in the economy because it supports enterprises that might not survive in a free market. That is the crux of the argument against a government bailout of the auto industry.

But Mr. Obama proposes to charge ahead, asserting that extensive government support is needed to preserve and create jobs while building the latticework of a 21st century economy.

Although Mr. Obama put no price tag on his plan, he said he would invest record amounts of money in the vast infrastructure program, which also includes work on schools, sewer systems, mass transit, electrical grids, dams and other public utilities. The green jobs would include various categories, including jobs dedicated to creating alternative fuels, windmills and solar panels; building energy efficient appliances, or installing fuel-efficient heating or cooling systems.

Paul Bledsoe, a former Clinton White House energy adviser, said that Mr. Obama had now settled whatever debate there was in his transition team and among Democrats in Congress over how to lift the economy in the short term and over a longer horizon.

"It's now clear that Obama intends to stimulate the economy through large direct government spending on infrastructure projects as well as through business and individual tax cuts," said Mr. Bledsoe, now an official of the National Commission on Energy Policy, a nonpartisan research group in Washington. "He is advocating things like guaranteeing every American a college education, wiring the entire country for Internet, putting in a smart electric grid. If he can do it, these will be major systemic advantages for the United States in the competitive global economy."

Although Mr. Obama is weeks away from taking office, Friday's grim jobs report heightened pressure on him to assert leadership before his inauguration.

Mr. Obama and his team are working with Congressional leaders to devise a spending package that some lawmakers suggest could total \$400 billion to \$700 billion. Some analysts forecast even higher costs. Mr. Obama has said he would direct his team to come up with a plan to save or create 2.5 million jobs in the first two years of his administration.

A big part of that will be public works spending. "We will create millions of jobs by making the single largest new investment in our national infrastructure since the creation of the federal highway system in the 1950s," Mr. Obama said. He did not estimate how much he would devote to that purpose, but when he met with the nation's governors last week, they said the states had \$136 billion worth of road, bridge, water and other projects ready to go as soon as money became available. They estimated that each billion dollars spent would create up to 40,000 jobs.

Local and regional transit systems have \$8 billion more in projects that could begin immediately, like buying hybrid buses and expanding light rail systems, creating thousands of jobs.

"He hasn't given us any commitment, but we are fairly certain it's going to be large," Gov. Edward G. Rendell of Pennsylvania, a Democrat and chairman of the National Governors Association, said in an interview Saturday. "I think he understands if you're trying to reverse the economy and turn it around, this is not the time to do it on the cheap. This is not the time to do it in small doses."

Mr. Bush and other Republicans have resisted such an approach in part out of concern for the already soaring federal budget deficit, which could easily hit \$1 trillion this year. Borrowing hundreds of billions of dollars today to try to fix the economy, they argue, will leave a huge bill for the next generation.

Conservative economists have also long derided public works spending as a poor response to tough economic times, saying it has not been a reliable catalyst for short-term growth and instead is more about politicians gaining points with constituents.

Alan D. Viard, an economist at the American Enterprise Institute, told the House Ways and Means Committee recently that public works spending should not be authorized out of the "illusory hope of job gains or economic stabilization."

"If more money is spent on infrastructure, more workers will be employed in that sector," Mr. Viard added. "In the long run, however, an increase in infrastructure spending requires a reduction in public or private spending for other goods and services. As a result, fewer workers are employed in other sectors of the economy."

Mr. Obama implicitly tried to counter such arguments by invoking the federal interstate highway program, seen as one of the most successful public works efforts in American history.

President Dwight D. Eisenhower signed the Federal Aid Highway Act in 1956, ultimately resulting in the construction of 42,795 miles of roads. In 1991, the government concluded that the total cost came to \$128.9 billion, with the federal government paying \$114.3 billion and the states picking up the rest.

Mr. Obama also responded to criticism of waste and inefficiency in such programs by promising new spending rules, like a requirement that states act quickly to invest in roads and bridges or sacrifice federal money.

"We'll measure progress by the reforms we make," Mr. Obama said, "and the results we achieve by the jobs we create, by the energy we save, by whether America is more competitive in the world."

The green jobs portion of the economic package could run as high as \$100 billion over two years, according to an aide familiar with the discussions.

A blueprint for such spending can be found in a study financed by the Political Economy Research Institute at the University of Massachusetts and the Center for American Progress, a Washington research organization founded by John D. Podesta, who is a co-chairman of Mr. Obama's transition team.

Daniel J. Weiss, an environmental analyst at Mr. Podesta's center, said Washington should invest more money in existing programs that create work while cutting energy use, like home weatherization programs that have been chronically underfinanced.

9. OBAMA OFFERS FIRST LOOK AT MASSIVE PLAN TO CREATE JOBS
Project Would Be the Largest Since the Interstate System

By Michael D. Shear
Washington Post Staff Writer
Sunday, December 7, 2008; A01

On the heels of more grim unemployment news, President-elect Barack Obama yesterday offered the first glimpse of what would be the largest public works program since President Dwight D. Eisenhower created the federal interstate system in the 1950s.

Obama said the massive government spending program he proposes to lift the country out of economic recession will include a renewed effort to make public buildings energy-efficient, rebuild the nation's highways, renovate aging schools and install computers in classrooms, extend high-speed Internet to underserved areas and modernize hospitals by giving them access to electronic medical records.

"We need to act with the urgency this moment demands to save or create at least 2 1/2 million jobs so that the nearly 2 million Americans who've lost them know that they have a future," Obama said in his weekly address, broadcast on the radio and the Internet.

Obama offered few details and no cost estimate for the investment in public infrastructure. But it is intended to be part of a broader effort to stimulate economic activity that will also include tax cuts for middle-class Americans and direct aid to state governments to forestall layoffs as programs shrink.

House Speaker Nancy Pelosi (D-Calif.) has called for spending between \$400 billion and \$500 billion on the overall package. Some Senate Democrats and other economists have suggested spending even more -- potentially \$1 trillion -- in the hope of jolting the economy into shape more quickly.

On Friday, the government reported that 533,000 jobs were eliminated in November, the largest one-month drop since 1974, raising unemployment to 6.7 percent. And last week, the National Bureau of Economic Research officially declared that the country has been in a recession since last December.

"We have faced difficult times before, times when our economic destiny seemed to be slipping out of our hands," Obama said. "And at each moment, we have risen to meet the challenge, as one people united by a sense of common purpose. And I know that Americans can rise to the moment once again."

Governors praised Obama's proposals, saying their states stand ready with billions of dollars' worth of road and school projects that could be started quickly with an infusion of federal cash. At a meeting with Obama in Philadelphia last week, governors estimated that there are \$136 billion worth of projects that are "ready to go" once money rolls in.

"Here in Virginia, we have more than a billion dollars in ready-to-go bridge, highway, rail, transit, port and airport projects that have been through appropriate local, regional and state planning processes and that can be under contract within 180 days," Gov. Timothy M. Kaine (D) said in a statement.

Maryland Gov. Martin O'Malley (D) said the plan would "help keep people employed and create new jobs, [and] it would allow us to deliver infrastructure improvements that will last beyond the immediate economic crisis and benefit generations to come."

In keeping with the secrecy that surrounds the development of his recovery plan, Obama has given the governors no commitment about how much money they would receive for such projects. But Pennsylvania Gov. Edward G. Rendell (D), chairman of the National Governors Association, said yesterday that he is not worried.

"Is it going to be big or little? It's going to be big," Rendell said. "I have no doubt that it's going to be substantial. [Obama] didn't blink an eye when we talked about \$136 billion."

Obama's top economic advisers are working with congressional leaders, who say they would like to have legislation ready for the new president to sign on Inauguration Day, Jan. 20. But congressional sources expressed skepticism yesterday that a program of such size and scope could be passed in the two weeks after Congress returns to Washington on Jan. 6.

"That is our goal," said one House leadership aide. "The problem is reality."

Republicans in the House oppose Obama's plan, saying they favor a series of tax cuts that they say would put money in people's pockets and encourage businesses to expand domestically.

"Anyone who has talked to the American people knows that while they are hurting, they don't believe that more Washington spending is the answer," said Michael Steel, a spokesman for Minority Leader John A. Boehner (R-Ohio).

Democrats said that even if a recovery act quickly passed the House early next year, it could take longer in the Senate, where fiscally conservative Republicans have expressed concern about adding to the

soaring deficit with a massive new round of government spending. Even with at least 58 Democratic votes in the new Senate, Republicans could easily hold up a final vote, they said.

"Under the timelines being discussed, the only way we can get something done is with the cooperation of Republicans," a senior Senate Democrat said. "The dynamic hasn't changed."

Aides in both chambers said the timing of the legislation will depend on the details of what is likely to be a very complicated proposal.

"He is now just beginning to flesh out his ideas," the Senate Democrat said. "Despite some of the reporting that we're on the cusp of some agreement, that ain't true. There are not a lot of details yet."

In his address, Obama offered the first outline of how he wants to direct the public works spending.

The largest share would go to roads and bridges and could be used to accelerate long-delayed repairs and expansions. Responding to concerns that new transportation money might be caught up in red tape at the state level, Obama said states must quickly invest in road and bridge construction and repair or lose the federal dollars.

" 'Use it or lose it' is a very powerful tool for us," Rendell said yesterday.

Obama would also direct a "massive effort" to make federal buildings energy-efficient by replacing aging heating systems and installing efficient light bulbs. Obama said the effort to "green" the federal government would save taxpayers billions.

Much of the public works program would be aimed at improving technology. The government would pay for new computers in schools, new medical technology in hospitals and doctors' offices, and a nationwide push to bring broadband to parts of the country that cannot yet access the Internet at high speeds.

Calling it "unacceptable" that the United States ranks 15th globally in high-speed-Internet adoption, Obama said in his address that "every child should have the chance to get online."

Mark Zandi, chief economist for Moody's Economy.com, said the kind of infrastructure spending Obama has proposed "makes perfect sense" for an economy that is likely to be struggling for years.

But he said the projects must be married with the tax breaks and aid to states, which would spark more economic activity quickly.

In a scenario he has presented to governors and congressional committees, Zandi estimated that a \$600 billion stimulus package similar to the one Obama has proposed could bring the unemployment rate back to 5 percent by 2012.

"There's been a lot of thought put into economic recovery, stimulus," he said. "The fact that the economy is rapidly eroding provides a strong impetus to get something done quickly."

10. DETROIT BAILOUT TALKS SLOW OVER 'CZAR' ROLE

By Greg Hitt

WSJ

December 6, 2008, 10:51 P.M. Et

WASHINGTON--Negotiations over a government rescue of the Big Three automakers slowed Saturday as Congress and the White House debated over the role of an "auto czar" who would oversee a restructuring of the industry.

Democratic leaders on Capitol Hill want action on the legislation as soon as Tuesday, hoping to avoid a collapse of one or more companies that are big parts of the nation's manufacturing base. Both the White

House and top Democratic leaders in Congress are zeroing in on a package that would provide about \$15 billion in short-term financing, enough to carry the companies into March of next year.

But big issues including federal oversight have to be worked out first.

The White House is proposing to create a "Financial Viability Advisor" in the Department of Commerce who would be authorized immediately to begin negotiating plans to return each company to economic viability. The advisor would be authorized to approve short-term financing for the industry, drawn from an existing loan program meant to help the Big Three retool to meet higher fuel economy standards, according to a draft of the administration plan.

The proposal would give President Bush a big say over the proposed bailout—and an ability to wring concessions from the industry—in his final days in office.

Top Democrats in Congress also want to create a czar and both camps suggest the official would effectively act as a trustee with the job of restructuring the industry. But Democrats want taxpayer dollars to flow first under a proposal that would have President-elect Barack Obama appoint the czar.

Under the Democratic proposal, the czar would still have leverage to force concessions, but the pressure would come amid debates about the industry's long-term financing needs, congressional aides said.

In an attempt to bridge the divide, Sen. Charles Schumer (D., N.Y.) is proposing Congress and the White House consult on the naming of the official. No final decisions have been made on the issue.

With sales slumping badly, General Motors Corp., Ford Motor Co., and Chrysler LLC are seeking \$34 billion in government loans to weather the current downturn in the economy. GM and Chrysler said they need a cash infusion by the end of the year to avoid collapse.

Bush spokesman Tony Fratto said the White House and congressional leaders are "still talking through things," and "will be talking again tomorrow."

Also at issue: A demand by senior Democrats that funds under the bailout not be used by the automakers to finance lawsuits challenging state car-emission limits.

Congress and the White House are also working on a series of provisions designed to protect taxpayers. They include limits on executive compensation and the paying of dividends, and a measure giving the government an ownership share in the companies.

Democrats and the White House have hopes of bringing congressional Republicans on board with the rescue effort. The emerging bill will still likely be unpopular, but could be more palatable to Republicans because it is funded out of already-approved loans, a \$25 billion program created last year to help the industry meet higher fuel economy standards, and not the \$700 billion financial rescue package, as top Democrats had pushed.

Senate Minority Leader Mitch McConnell (R., Ky.) has previously voiced support use of the retooling loans. On Saturday he said, "I look forward to reviewing the legislation being drafted to address the difficulties in our auto markets. As we consider this legislation, our first priority must be to protect the hard-earned money of the American taxpayer."

11. REPUBLICANS DIVIDED ON AID TO AUTOMAKERS

By David M. Herszenhorn
NY Times
December 7, 2008

WASHINGTON — As Senate staff members worked through the weekend to draft legislation for a taxpayer rescue of the imperiled American automobile industry, Republicans who have the power to scuttle the plan offered mixed reactions to the preliminary details on Saturday.

Senator Christopher S. Bond, Republican of Missouri — who with Senator Carl Levin, Democrat of Michigan, proposed a plan last month that was nearly identical to the one Congressional Democrats have now endorsed — said he was pleased.

“I’m glad the Democratic leadership has embraced the principles of the Bond-Levin bill to hold auto companies accountable, protect taxpayers and save millions of American jobs as we head into the holiday season,” Mr. Bond said in a statement.

But Senator Bob Corker, Republican of Tennessee, who sharply questioned executives of Detroit’s Big Three auto companies at a hearing on Thursday, said he was unhappy with the way the plan seemed to be shaping up on the Senate banking committee.

“Based on the outline we’ve seen so far, we are disappointed,” Mr. Corker said in a statement. He reiterated his demands that the automakers make aggressive efforts to cut labor costs and reduce their overall debt obligations before receiving any aid.

“These are the same types of conditions a bankruptcy judge might require to ensure that these companies become viable and sustainable into the future,” Mr. Corker said. “And if they will agree to these terms, then we have something to talk about.”

The Republican leader, Senator Mitch McConnell of Kentucky, said he would be looking for strong taxpayer protections.

“I look forward to reviewing the legislation being drafted to address the difficulties in our auto markets,” Mr. McConnell said in a statement. “As we consider this legislation, our first priority must be to protect the hard-earned money of the American taxpayer.”

The Democrats currently hold a 50-to-49 majority, with one vacancy because of the resignation of President-elect Barack Obama. It is also unlikely that Vice President-elect Joseph R. Biden Jr., who is still a senator from Delaware, or Senator Hillary Rodham Clinton of New York, who has been chosen for secretary of state, would vote.

The senior Republican on the banking committee, Senator Richard C. Shelby of Alabama, has said he will oppose any taxpayer-financed bailout for the auto industry, and other fiscal hawks are likely to join him in opposing the measure.

Republican support is less critical in the House, where Democrats enjoy a wider majority.

The banking committee staff set to work immediately after Congressional Democratic leaders reached a consensus late Friday afternoon to push ahead with a package of short-term emergency loans for the Big Three auto companies, Chrysler, Ford and General Motors.

Details of the legislation were still in the early stages, but the White House press secretary, Dana M. Perino, said Saturday that there was progress.

“We have had constructive discussions with members of Congress from both houses, and both sides of the aisle,” Ms. Perino said in a statement. “We hope to continue to make progress toward assistance for the automakers based on important principles.”

Among the White House demands are that the money aid only companies that agree to concessions to ensure future viability and competitiveness, that the money come from \$25 billion in federally subsidized loans already approved for auto companies, and that the legislation provide for taxpayer protections.

“Taxpayers should not be asked to finance assistance for automakers without a strong likelihood that they will be paid back,” Ms. Perino said.

Lawmakers drafting the bill are expected to require that the Big Three automakers, as a condition to getting government loans, drop their legal opposition to efforts by California and 15 other states to reduce heat-trapping gases, according to an official of the automakers.

The Detroit automakers, as well as foreign manufacturers, have opposed the state-by-state approach to cutting vehicle emissions, arguing that different standards across the country would add too much complexity to their cars and trucks.

The short-term rescue package is likely to focus on G.M. and Chrysler, which are in more perilous condition than Ford. At Congressional hearings last week, some experts testified that without government aid, G.M. was in danger of financial collapse by the end of the month.

Although the parameters of the aid package were still being formed, the breakthrough in discussions among Congressional Democrats was the willingness of the House speaker, Nancy Pelosi, to tap the existing loan program, at least temporarily, to provide the emergency aid.

Ms. Pelosi had resisted that idea, saying she did not want to compromise on the higher fuel-efficiency goals, and on Friday she said she would agree to use that money only if it was replenished within a matter of weeks.

Accomplishing Ms. Pelosi's goal will be among the trickiest challenges facing Congressional staff members as they work to draft the legislation.

Part of the reason it remains unclear how much money the auto companies will get is that the loan guarantees are now worth substantially less than \$25 billion. Congress appropriated \$7 billion this fall to guarantee the loans, an amount determined by budgeting rules based on the risk that the companies might default.

Now that the condition of at least two of the three auto manufacturers has further deteriorated, that default risk is greater, and the \$7 billion will guarantee only a smaller package of loans, perhaps \$15 billion to \$17 billion.

Senator Christopher J. Dodd, Democrat of Connecticut and chairman of the banking committee, was back in his home state, where he met with local auto dealers at a Pontiac showroom in Westport to draw attention to the difficulties their industry faced. With a new report showing staggering job losses in November, Mr. Dodd and other senior Democrats said that allowing any of the three auto companies to collapse would be unthinkable, given the dire economic conditions.

"If we don't step up and take some action," Mr. Dodd said, "this economy will get worse by the hour."

Mr. Obama and his transition team have closely monitored the developments on Capitol Hill and been in close contact with Ms. Pelosi as they consider the implications for his economic agenda and his plan to create jobs.

The bipartisan proposal from Mr. Bond and Mr. Levin, released just before Thanksgiving, called for tapping the same \$25 billion in federally subsidized loans, but also called for the requirements of that bill, mandating that the automakers retool their operations to produce advanced fuel-efficient vehicles, to remain in place.

12. DETROIT HAS RUN OUT OF ROAD. THE CAR'S FUTURE LIES IN EUROPE

Will Hutton
The Observer,
Sunday December 7 2008

The car was the symbol of the prewar 20th century. Henry Ford's Model T, Volkswagen's people's car and even Britain's Morris Oxford were more than just industrial products. Suddenly, industrialisation was able to offer the mass of consumers cheap, convenient and individual mobility. The car changed industrial civilisations and their cultures.

Detroit was the undisputed centre of the industry. It manufactured more cars than anywhere else - four out of five across the globe as late as the mid 1950s. Its cars shaped American society. Americans yearned to climb into its Buicks, Cadillacs and Mustangs. The cars denoted your identity and your ambitions. The mobility spawned America's vast, sprawling suburbs. 'What is good for General Motors is good for America,' said its then chairman and chief executive Charlie Wilson. He captured an important truth.

Now, America's big three car companies - General Motors, Ford and Chrysler - are fighting for their lives. Last week, they presented last-ditch restructuring plans to Congress, promising a massive increase in fuel-efficient cars and a cessation of corporate excess as the quid pro quo for more than \$30bn of soft loans and stand-by credits. Without them, General Motors and Chrysler will be forced into administration; Ford, in a stronger position, could be brought down too.

The US, already reeling from the loss of half-a-million jobs last month, would face the loss of millions more and the collapse of a key part of its manufacturing base. This is more than an appeal for a bail-out: it is American capitalism and society at a crossroads.

Many different crises coincide here. There is a crisis of lack of demand created by the credit crunch, with November sales down 40 per cent. There is a crisis of production. Detroit has resisted every regulatory measure aimed at making more energy-efficient cars for decades, but it was particularly successful during the Bush administration. It avoided introducing the fuel-efficient cars the big three manufacture in more tightly regulated Europe, opting for high-margin gas guzzlers for the US domestic market. Now it is paying a fearful price.

The American financial system is too broken to lend and invest in its own hinterland. It found hundreds of billions of dollars for ludicrous bids, deals and mergers during the boom; now, it cannot find \$34bn to finance the transformation of a key industry.

Finally, there is a crisis of purpose. Detroit has mocked climate change, assumed cheap petrol is an never-ending and unchallengeable American right and shared the neo-conservative agenda that government is necessarily and always bad. Now, as GM's submission to Congress acknowledges, the lack of an American welfare system means that American companies have to assume crippling obligations that their competitors do not. Moreover, the dysfunctionality of free American finance means that the reviled federal government must become Detroit's banker.

Moreover, it was only a few years ago that GM's vice chairman Bob Lutz could pronounce that the theory of climate change was 'a crock of shit', a view that animated Detroit's resistance to developing energy-efficient cars. Detroit's world view, like Wall Street's, has proved cataclysmically wrong. GM's chief executive Rick Wagoner acknowledged last week that he was in Washington because his company 'had made mistakes'. It was an understatement.

Congress and even the Obama team are hesitating to agree the manufacturers' plans because both are unsure whether the proposed restructuring goes far enough. The plans to commit to new flexible-fuel cars, hybrids and, in GM's case, a battery-powered car - the Chevrolet Volt - look good on paper, but Detroit's record of delivery is not good.

There is a realisation that the whole philosophy on which so much American corporate and political decision-making has been based over the last two decades is as bankrupt as the companies. Turn-round depends on wholesale change.

The world is near peak oil production. Energy prices will be volatile, but this summer's top figure is a forerunner of what is to come. Cars and, with them, concepts of how mobility is to be created have to change. That, in turn, demands a new role for public leadership. Governments, consumers and companies must agree a new vision and then it must be regulated and legislated for.

It was telling that as Detroit's CEOs were suffering humiliation in Washington, Germany's BMW was unveiling a battery-powered Mini E two years before GM's Volt hits the streets - and with treble the range. If anything, the German love affair with the car trumps America's and its car companies try to resist regulation no less aggressively. But European political systems are less open to being completely bent by corporate lobbying and regulation is seen as more legitimate.

German greens in particular changed the national political discourse in a way German car companies could not beat back; investing in energy efficiency, new engines and new sources of fuel such as hydrogen became a political, legal and commercial imperative.

American economists, politicians and Detroit mocked the European model. But regulation in response to voters' concerns has an important effect; the political process is another way consumers can signal what they want. The European Commission chipped in, setting targets for ever-lower carbon emissions, which European car manufacturers accept in principle. There is an important difference between softening a drive to better energy efficiency and life-and-death resistance.

Nor should the government's interest be seen as a one-off response to crisis. Leading British sociologist John Urry argues that the system founded on 'automobility' must change. In cities, the future is car pools and car clubs, with the cars being propelled by hydrogen or electricity. Cars will cease to be status symbols; instead, they will become utilitarian instruments of a collective mobility.

Britain has a stake in this; Vauxhall, owned by GM, is looking for support from the British government to save 5,000 jobs here. But both the US and UK governments must go well beyond short-term bail-outs.

We need to think of nothing less than a sustained technological, industrial and cultural effort to change our approach to mobility and what we manufacture. It has implications for everything - from the priorities of our banks to how we plan our cities. Success will require states and companies accepting a more interdependent relationship than they had during the conservative ascendancy.

Detroit is at a crossroads. Car companies need to rethink their mission from scratch, for their own sake and the world's. The car was a symbol of the 20th century.

13. AUTOMAKERS FACE COSTLY ROAD TO CUT UNPOPULAR BRANDS

Contracts and State Laws Protect Large Investments by Dealerships

By Steven Mufson and Thomas Heath
Washington Post Staff Writers
Sunday, December 7, 2008; A01

The Frank Kent Hummer dealership -- complete with an indoor waterfall and a massive curved roof reminiscent of an aircraft hanger -- opened in Fort Worth in the spring of 2005 with hopes as high as the giant "H" that dominates its entrance.

Three years later, General Motors wants to get rid of its lagging Hummer brand. But what's good for GM in this case may not be good for its 400 Hummer dealers, who have invested millions of dollars with the expectation of selling a line of new products for years to come.

Moreover, auto dealerships are protected by stringent franchise laws around the country and by contracts with manufacturers that make it difficult -- and potentially costly -- for automakers to walk away from brands. And dealers, who are politically powerful, are mobilizing elected officials to provide further cover as the industry prepares for a huge overhaul.

"To think they'd sell the franchise and leave the top 150 dealers hanging, I don't think they'll do that," said Will Churchill, co-owner of Frank Kent Motor Co., which paid to build the \$3.5 million Hummer dealership to GM's specifications. "They'll do something to help minimize that blow."

This weekend, aides to congressional Democrats met to draft legislation that would provide enough money to the auto industry to keep GM and Chrysler afloat for a few months. The accord would dip into loans approved last year to promote fuel efficiency, but which haven't been dispensed yet. House Speaker Nancy Pelosi (D-Calif.), who has opposed using those funds, said Friday that she would agree if the funds were replenished from a new bailout package or from existing financial rescue programs. The Bush administration yesterday signaled its support as long as the companies were willing to make the "difficult decisions" necessary to keep their businesses viable.

"Taxpayers should not be asked to finance assistance for automakers without a strong likelihood that they will be paid back," said White House press secretary Dana Perino.

Dealerships represent one thorny issue facing automakers, whose production capacity currently exceeds what is needed to supply the U.S. car market. Eliminating brands and closing down dealerships is central to their strategy for survival. GM dealers are the biggest target; the company has about four times as many dealerships as Toyota even though the two firms sell about the same number of cars in the United States. GM told Congress last week that it plans to shed 1,700 of its 6,400 dealerships by 2012.

Gone are the days when a company would pursue a strategy of making "a car for every purse and purpose," as GM chief executive Alfred Sloan put it in the 1924 annual report. Last week, GM CEO G. Richard Wagoner Jr. said the company would focus on just four brands that make up 83 percent of the company's sales.

But untangling the web of relationships with dealerships could be time-consuming and costly.

The car companies established their dealership networks decades ago because they figured that independent businesspeople would work harder than employees and take on the burden of capital costs for retail buildings. But the arrangement was not without friction. In the 1920s and 1930s, for instance, manufacturers forced dealers to take on inventory even in weak markets, and the dealers sought help from state legislatures. Today, state laws set all sorts of rules. In Texas, no two dealers of the same brand can be less than 15 miles apart. In Maine and Florida, dealers can charge auto manufacturers full retail price for parts that manufacturers supply the dealers for warranty repairs.

State laws "keep dealers from getting taken advantage of by manufacturers," said Churchill, the Fort Worth Hummer dealer. "It's a David and Goliath situation. It kind of gives the dealers a little bit more muscle."

Now, if an automaker wants to close down a dealer for whatever reason -- known as a "forced termination" -- it can take six months to two years, including court appeals. Many analysts say that GM paid more than \$1 billion to dealers when it killed off its Oldsmobile line. GM would not say how much it spent.

"It's very cumbersome," said Tammy Darvish, vice president of Darcars Automotive Group, the nation's 16th-largest dealer as ranked by Automotive News and which has dealerships across the Washington area.

"When you have voluntary decisions not to make those cars anymore, you in essence are in violation of the franchise agreement. You are in breach of the agreement with the dealer," said Michael Charapp, an attorney who represents several area auto dealers.

Interviews with area dealers suggest that the price tag would be hefty for any manufacturer.

Ford Motor, for example, is trying to consolidate dealerships. "We have too many dealers," said Alan Mulally, Ford's chief executive. "If they're not successful, we can't be successful."

At the urging of Ford, the Apple Ford dealer in Howard County recently bought out Miller Brothers Lincoln Mercury in Ellicott City, and consolidated. To spur the move, Ford paid half the costs, said George Doetsch Jr., chairman of Apple Ford.

"We are now the only Ford Lincoln Mercury dealership in Howard County," Doetsch said.

Bankruptcy would give manufacturers more latitude to break franchise agreements and circumvent state laws, one reason dealers have been lobbying for a federal bailout of the manufacturers.

Even then, disentangling automakers and dealers would be difficult. The car manufacturers are financially intertwined with their dealers. Ford's Mulally said that 70 percent of the loans from the company's finance unit cover the cost of dealers' inventories.

"These are independent entrepreneurs," Mulally said. "But this is a very, very mutually beneficial relationship. This is the distribution channel . . . We are absolutely aligned economically."

Often, car sales franchises own more than one dealership, making it hard for a manufacturer to walk away without harming its own interests. The Fort Worth Hummer dealer, run by Churchill and his sister, just opened a new Buick-Pontiac-GMC dealership building with the help of a \$2.2 million loan from GM's finance arm.

"Basically, dealers are strong," said Doetsch of Apple Ford. "Unless you are unprofitable or can't meet the standards set . . . it is difficult to close them."

And for good reason, dealers say. Dealers spend millions constructing and tailoring their buildings to the needs of a specific brand. With service departments, body shops and showrooms, car dealerships cannot be easily transformed for other uses.

"Whether its Mercedes, Lexus or Infiniti, they will tell you how high the roof line is, what the customers' lounge looks like," said Charapp, the attorney. "They all want their own brand experience and tell you what they want their place to look like. It's very expensive."

Dealers have also been trying to rally political support, pointing to their impact on the U.S. economy. A report prepared by the Casesa Shapiro Group for the National Automobile Dealers Association says that the nation's roughly 20,700 dealers have \$233.5 billion invested in their businesses, employing and training more than 1.1 million people and accounting for nearly 20 percent of all retail sales.

"Far from being a burden to the manufacturer it represents, it supports the manufacturer's efforts by providing a vast distribution channel that allows for efficient flow of the manufacturer's product to the public at virtually no cost to the manufacturer," the report said.

GM spokesman Peter Ternes said that "this doesn't really save a lot of money for the company," but he said it helped ensure "healthier dealer points" that "can keep facilities fresh."

But dealers say that manufacturers shouldn't be choosing which dealers to close down. "If a dealership runs out of money, they are going to close themselves," Doetsch said. "You can't run on zero profitability."

This year alone, 150 GM dealers have gone out of business through "natural attrition," Ternes said.

Charapp said "the manufacturers have had a dealership reduction in place for several years, and it was designed by Charles Darwin."

14. INDUSTRY SAYS INVESTMENT WILL CONTINUE IN GULF DRILLING, DESPITE DECLINING FUEL PRICES

by Jen DeGregorio
The Times-Picayune
Friday December 05, 2008, 6:36 PM

Money will likely continue to flow into drilling the deepest regions of the Gulf of Mexico, even as the energy industry cuts costs to deal with a global economic downturn, according to analysts who spoke Friday at an energy economics forum in downtown New Orleans.

The deepwater of the Gulf, which refers to areas more than 1,000 feet under water, is thought to hold some of the largest reserves of untapped fuel in the world. Some estimates indicate that there are still 40 billion barrels of oil left to be found in the Gulf, more than enough to feed the United States for five years. But companies are having to travel farther offshore to tap those resources, which require more time and expensive technology to produce than fuel unearthed from shallower waters.

The investment was well worth the risk when fuel prices went sky-high earlier this year. But even as oil tumbled to \$40 per barrel this week, down from a summer peak of nearly \$150 per barrel, the energy industry is likely to keep spending on the Gulf.

"We live in very volatile and uncertain times," said Brian Reinsborough, president of Nexen Petroleum USA, a Canadian company that has a big presence in the Gulf. "You will see capital being held back and projects delayed through 2009."

But with oil prices predicted to rise as the global economy recovers, energy companies are still dedicated to their Gulf operations.

"Deepwater rigs will keep drilling," he said. "We still believe that, long term, oil remains strong."

Analysts from Mexico and the United States echoed Reinsborough's comments, which came during one of the final sessions of a three-day conference of the U.S. Association for Energy Economics. All three panelists touted the region's significance for feeding North American demand.

Eduardo Gonzalez-Pier, an executive with Pemex, a state-owned Mexican oil company, explained new tax credits and other recent regulatory changes in Mexico that promote drilling in the deepest regions of the Gulf.

"The Mexican side of the Gulf of Mexico remains very unexplored, with high potential for replenishing reserves and increasing production," Gonzalez-Pier said.

John C. Felmy, an economist with the American Petroleum Institute, said Congress could help speed production in the Gulf by passing laws that would lower the financial burden on companies that venture into the risky deepwater. Felmy expressed frustration with "rhetoric" in Washington that portrays the energy industry as greedy when the sector actually earns profits he said are on par with other manufacturers.

"Going forward, you are going to continue to need that oil, even with the changes that could happen with alternatives," he said, referring to the push to develop renewable fuel sources. "If you use 100 percent of the corn crop for gasoline, you only get 15 percent of the gas supply."

15. CRUDE'S COLLAPSE OILED THE BANK'S WHEELS
Economic Outlook

David Smith
The Sunday Times
December 7, 2008

Another week, another point off Bank rate, coupled with a 0.75 point cut by the European Central Bank. The dive in official interest rates towards zero is an extraordinary facet of an extraordinary time.

After a cascade of bad news, notably very weak purchasing managers' surveys for manufacturing, construction and services, the Bank had no option but to go for another cut that only a few weeks ago would have been regarded as unthinkable.

Activity is sliding fast everywhere, and certainly in all advanced economies. The OECD reckons the fourth quarter will see the biggest gross-domestic-product declines in this recession (Britain contracted by 0.5%

in the third) and it feels that way. Much depends on when policy actions, including aggressive rate cuts, start to have an impact.

Members of the Bank's monetary policy committee (MPC), having taken these dramatic steps, are feeling a bit misunderstood. They think people do not appreciate the pressures they were under until recently to balance rising inflation - and people's heightened expectations of future inflation - and recession.

And, while I would have liked to see them cut aggressively much sooner, they have a point. In August, before the near-meltdown in the global banking system that started with Lehman Brothers' bankruptcy in mid-September, only two forecasters out of 44 monitored by the Treasury were predicting outright recession in 2009. They were Standard Chartered and Peter Warburton's Economic Perspectives.

The consensus among forecasters was that Bank rate would remain at 5% until the end of the year, falling only gradually to 4.25% by the end of 2009. Inflation would remain above the 2% target throughout. Things have changed, and they have changed dramatically.

We know about the damage this most deadly phase of the financial crisis has inflicted on growth and confidence. It has also transformed inflation prospects, and one useful measure of this is the oil price. In August, economists expected the price to average \$115 a barrel in 2009. It had come down from its July record of \$147 but most did not expect it to come down much more. Last week Brent crude dropped below \$40, a figure that seems strangely familiar.

The oil price and I go back a long way. Having repeatedly said the price rise was a spike, significantly driven by speculation, I found myself at odds with many apparent experts and many readers.

T Boone Pickens, the legendary US energy investor, said oil would never again go below \$100 a barrel and his view was echoed by many lesser lights. Some journalists went out of their way to deny a speculative element in the spike, even as some investment banks continued to pump up the oil story and funds poured into commodity-index futures. Arjun Murti, Goldman Sachs's energy strategist, said the price could reach \$200 in the second half of this year and plenty of rival banks pushed the rising oil story. Jeff Rubin, chief economist at CIBC World Markets, was also a \$200 man.

Peak-oil enthusiasts explained every price rise as further evidence that global production had reached its maximum. Weekly rags spouted "sell your house, buy commodities" nonsense. I hope nobody did.

The more the financial crisis dragged on, at least until the September-October tumult, the more oil bulls became certain the price of crude would continue to rise. That seemed illogical to me. Even before the latest banking troubles the world economy was heading into a period of slower growth and restricted oil demand.

That did not stop the vested interests, like Chakib Khelil, the Opec president, who predicted a rise to \$170 this year, or Alexei Miller, chief executive of Gazprom, who summoned journalists to an awayday in Deauville to say the price would hit \$250 "in the foreseeable future".

We have to be thankful they were wrong, though not before such views, in helping to drive the oil price higher, did a lot of damage. The scale of the market turbulence and intense banking strains of recent weeks took everybody by surprise and hastened the fall in the oil price because some investors were forced to unwind their speculative positions. But its main effect was to bring forward the inevitable.

In the short term, then, this is unalloyed good news. The full-year effect of a sustained oil drop from nearly \$150 to \$40 a barrel is, according to Mark Cliffe, global head of financial-market research at ING, a \$2,700 billion transfer from producing to consuming countries. This is a tax cut much bigger than the one western governments are implementing.

More directly, the oil fall has liberated the Bank, and other central banks, in spectacular fashion. The mainstream view now is that retail-price inflation will go negative during 2009 and consumer-price inflation will skate close to zero.

Will it go below zero and, in a recessionary environment, usher in a long and potentially devastating period of deflation – a falling price level? The danger of that is not that people delay purchases in anticipation of further price falls; that is an everyday story on the high street. It is that debt, already at high levels, becomes even more burdensome by rising in real terms.

The Treasury, which sees consumer-price inflation falling to 0.5% by the end of next year, thinks it will then bounce. "Inflation is forecast to move a little above the 2% target following the reversal of the Vat cut and as the lagged effects of sterling depreciation on import prices continue to feed through," it said in the prebudget report.

Part of the path of inflation, however, is dependent on oil. After previous recessions the oil hangover was long. In the mid 1980s and 1998 the price touched \$10 a barrel as demand took time to recover.

The medium-term supply-demand balance for oil should be tight enough to avoid that happening again and, indeed, it would not be a good thing if it did. Already weak oil prices and funding shortages are scaling back exploration and development.

The appropriate price of oil is one that encourages marginal fields to be brought on stream. If it falls too far below present levels, says the International Energy Agency, we will be storing up supply problems for the future by discouraging development.

The fall in the oil price is a good thing. Like many good things, however, you can have too much of it.

16. UK INDUSTRY ON PEAK OIL: VIRGIN, YAHOO AND OTHERS RAISE THE ALARM

by Sami Grover
Carrboro, NC, USA on 12. 5.08
Tree Hugger

Big Business Starts Warning of an Oil Crunch

While some in the business world have recognised and spoken out about the threat of peak oil – from Shell CEO Jeroen van der Veer's prediction that energy depletion could hit us in 7 years, through to oil banker Matt Simmon's warning that the energy crisis could dwarf the financial crunch soon - in general the silence from corporations on this issue has been deafening. This is a particularly puzzling state of affairs when you consider how dependent our entire economy is on cheap oil. But there are signs that things are changing – a report, which Matt posted about last week, from the newly formed UK-based Industry Taskforce on Peak Oil and Energy Security, has now been launched at the London Stock Exchange. The video above shows the kind of heavy hitters involved in this initiative - including Richard Branson of Virgin - as they aim to raise awareness of the threat, and what can be done to counter it. This from the group's website:

The availability and price of oil affects almost every aspect of our economy and our day-to-day lives: the way we travel, where we work, what we eat, how we power our homes and buildings; and how we manufacture goods here in the UK. The "easy oil" that makes up most of the existing capacity is declining fast, and the new capacity coming on stream – often from "not-so-easy" oil - will not replace it fast enough from 2011 onwards. Within modern cities, life in the suburbs will become extremely challenging without plentiful supplies of affordable oil.

The task force is currently made up of eight major corporations including Yahoo, Virgin, Solarcentury, ARUP, Scottish and Southern Energy, Stagecoach, Fosters and Partners and the First travel group (of course it should be noted that many of these companies have considerable investments in some of the most important solutions to peak oil). The group's initial report is free to download in PDF format, entitled The Oil Crunch: Securing the UK's Energy Future, and the group's website also features brief summaries of the threat and opportunity posed by peak oil for the economy, transport, energy, industry and food. Great to see such high level discussion finally getting under way – now it's time to start implementing the solutions.



17. PEAK OIL STILL RELEVANT? MORE THAN EVER.

By [Daniel Lerch](#)
Post Carbon Institute
December 4, 2008 - 7:07pm.

Before the Thanksgiving holiday we got an email from William M., a reader of our [newsletter](#), asking, "**Why if oil supply is decreasing and demand is increasing is the price collapsing? What is happening? Is Peak Oil therefore a myth?**"

I addressed parts of this question in an [October blog post](#) but there's more to dig in to, particularly regarding some common misconceptions about what's happening with supply and demand. I'll take William's question as a framework for addressing some of these issues:

"IF OIL SUPPLY IS DECREASING..."

Strictly speaking, the global oil supply has been decreasing since we started drilling in the mid-1800s. What we *really* care about is the ever-increasing *flow* of oil from underground reservoirs to markets because that's what feeds ever-increasing global demand. The oil industry generally talks about 'production' (i.e., extracting oil out of the ground and 'producing' it into a usable barrel), so this part of the question is, more accurately stated, "If global oil *production* is declining..."

But, production isn't necessarily declining right now. To explain why, we first need to pick apart what we really mean by the word "oil" -- which isn't as clear-cut as most people think. Analysts generally divide oil into two kinds, conventional and unconventional:

Conventional oil is the stuff we've been getting out of places like Texas and Saudi Arabia for decades, and which made up about 86% of total global oil production last year. Until this past July, when oil prices skyrocketed to all-time highs, "conventional" oil production had been [hovering](#) between about 72.3 and 74.2 million barrels per day (mbpd) for about four years.

Then there's **unconventional** oil, which is generally considered to include low-grade resources like [tar sands](#), [oil shale](#), and 'heavy oil', plus even *more* logistically challenging resources like [deepwater oil](#) and [polar oil](#). Some analysts talk about unconventional *sources* and use this broader umbrella to include [natural gas liquids](#) and biofuels.

Unlike conventional oil, unconventional sources grew noticeably from 2004 to 2007 -- and together, the [total flow](#) of both (sometimes collectively just called 'liquids') grew from about 83 mbpd in mid 2004 to about 86.5 mbpd in mid 2008. That's paltry growth, however, compared to a [relatively steady increase](#) of oil production since the end of the first Gulf War in the early 1990s (excepting production decreases following the economic crisis of 1997 and the attacks of 9/11). Thus,

Oil production is not decreasing yet -- but it does seem to be *plateauing*. (And this happens to be exactly what's expected in the years surrounding the actual peak of total global production.)

"...AND DEMAND IS INCREASING..."

Oil demand has indeed been increasing for years, and not just in places like China and India but also in the West... until very recently. The subprime mortgage debacle and the record high oil prices that started late last year obviously contributed to the economic slowdown, and the financial crisis that slammed Wall Street this Fall now looks to keep us firmly in a recession. Also, recent news of China facing major cuts in industrial production suggests we won't see global oil demand growth for some time. Thus,

Oil demand is *not* increasing anymore -- it's decreasing slightly, but it's not clear for how long.

"...WHY IS THE PRICE OF OIL COLLAPSING?"

It's pretty clear that if global oil production is levelling off but still increasing slightly, and global oil demand is edging downward, we'll have a fall in oil prices.

But that's only part of the picture. The record-high oil prices of last Fall to this summer meant that oil producing countries and oil companies were working overtime to send more oil to market -- both to cash in on the juicily high prices (especially important to the less robust economies of Venezuela, Iran and Russia) and to keep oil from going *too* high lest it hurt the economies of the consuming nations (especially important to Saudi Arabia).

Fast-forward to Summer 2008: oil prices hit an all-time high of \$147 and oil (non-biofuel liquids) production hit an all-time high of just under ~87 mbpd, just as the US was moving into its [third quarter of a recession](#) and right before the financial crisis was about to explode on Wall Street. Perfect recipe for a price collapse.

In addition to those supply and demand dynamics, speculation also played a role in the oil price roller-coaster. I recently asked Richard Heinberg his thoughts on this -- here's what he said:

Part of what happened with the oil price spike/collapse was that hedge funds piled on to commodities investments as (a) the value of the dollar was tanking and (b) oil supplies were flat (barely meeting demand), and then dumped commodities when (a) the credit crunch came on strong and they had to cover their losses elsewhere, and (b) the dollar rebounded, as other currencies sank (because their economies were more immediately vulnerable to the credit crisis and everyone wanted a safe monetary haven--and there is still no good alternative to the US dollar for that purpose).

So as usual, the reality of what's going on is significantly more complicated than the simple explanations being tossed around in the media and in the halls of government. Thus,

The oil price has collapsed thanks to a short-term surge in production combined with a medium-term (for now) financial crisis and a longer-term economic recession, with Wall Street speculation having helped make matters worse.

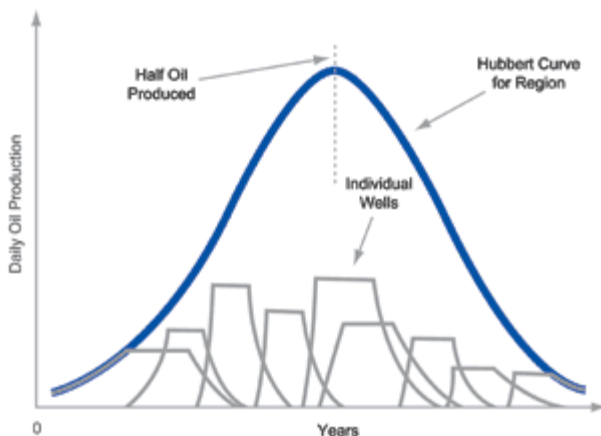
"IS PEAK OIL STILL RELEVANT?"

(The reader asked "Is peak oil therefore a myth?," but I take this as the gist of the question.)

One of the biggest misconceptions about peak oil is that it is a prediction about the world's oil supply. The peak oil concept actually has more to do with the *flow* of oil to the global market, as discussed above.

The peak oil concept is useful because it cuts through short-term supply and demand variables to the underlying physical and economic realities of oil production. And the basic reality (from an economic view) is this:

1. First, money is spent to find and extract "easy" conventional, and the flow of oil to the market increases steadily.
2. Then, that flow of easy oil starts to slacken, and more money is spent to find and extract the more difficult oil and maintain a steadily increasing flow of oil to the market.
3. Finally, it becomes too expensive to keep finding and adding enough of the difficult oil *to make up for the declining easy oil*, and the total flow of oil goes into permanent decline.*



That reality should be fairly obvious for the long term perspective: while we can extract ever more technologically challenging oil deposits at \$300 or even \$500 per barrel, at such cost and price levels other energy sources will look a lot more attractive.

For the short term perspective, however, that reality is less obvious -- which is partly why we hear much more in the news about big new finds of oil (almost always unconventional and increasingly expensive to produce) than about impending permanent decline, i.e. peak.

Here's where the distinction between conventional and unconventional oil is important. More unconventional oil becomes unprofitable to produce as the price of oil falls; \$80 is a [commonly cited cutoff point](#) for some of the big tar sands projects, for example. Sure enough, we've heard [reports](#) of tar sands projects and even refinery projects being shelved or delayed since oil plummeted below \$100 a few months ago.

Now, remember that unconventional oil isn't just a tap that we can turn on and off. It's 'unconventional' precisely because it's logistically more difficult to produce than regular oil. Putting a bunch of oil derricks on the Oklahoma flatlands is peanuts compared to developing a multi-billion dollar, state-of-the-art [deepwater project](#) that can extract oil from below many thousands of feet of ocean and seabed, and requires a small army of highly-trained engineers and geologists to operate. Some of the big deep-sea projects can take from six to nine years from discovery to regular production.

So when these unconventional oil projects get shelved because prices are falling, they're not going to suddenly start producing oil immediately when prices go back up. Meanwhile, we keep drawing on the world's supply of conventional oil -- which pretty much everyone agrees is very near peak since [discoveries](#) of conventional oil [peaked back in the 1960s](#). When demand does rise again and prices go up, there'll be that much *less* conventional oil available and the unconventional oil won't necessarily be there to step in right away.

Indeed, [some commentators](#) have said that peak oil will turn out to have been July 2008 at ~87 mbpd, for the simple reason that by the time the global economy demands more than 87 mbpd it'll be prohibitively expensive to deliver that much, and both demand and 'supply' (flow) will be forced back down. Thus,

The peak oil concept is more relevant than ever, because it warns us that the current low prices (that is, the oil supply glut) are only temporary.

I've left out any discussion of how the current low oil prices will delay much-needed changes in consumption and efficiency, as well as current thinking on likely oil production decline rates (see the quote below for a snippet), but overall I hope this answers the question. And thank you, William, for asking it! We always welcome comments on our newsletters and articles (although I can't promise to write a lengthy blog post in response to each one).

For further reading on the data and other details, I highly recommend ASPO-USA's [Peak Oil Weekly Reviews](#) and the monthly [Oilwatch](#) by Rembrandt on [The Oil Drum](#).

A parting thought from Tom Whipple from the [December 1st](#) edition of Peak Oil Weekly Review:

It is starting to dawn on many that, should oil prices and demand remain low for an extended period, new investment in oil production will fall to such an extent that, with worldwide depletion, now thought to be in the range of 5 to 6 percent a year, there simply will not be enough new oil to power an economic recovery.

FOOTNOTE:

* While the *peak* of oil production does not necessarily occur at the halfway point of *total* production, as suggested by the chart, it's generally accepted that peak usually does occur around the halfway point.

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