



# Peak Oil News

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

[Tom Whipple](#), Editor

Monday, December 08, 2008

### Current Developments

#### [1. OIL, COPPER ADVANCE AFTER OBAMA PROMISES PUBLIC WORKS SPENDING](#)

By Shigeru Sato and Eduard Gismatullin

Dec. 8 (Bloomberg) -- Oil, copper and corn rose after President-elect Barack Obama pledged the biggest U.S. public works program in about 50 years to revive the economy. Commodities rebounded from last week's losses on speculation spending on roads, bridges and repairing school buildings will boost raw material demand and engineer a recovery in the world's largest economy. Obama said that his economic plan would create or preserve more than 2.5 million jobs. "Obama's speech was positive in some respects -- that, yes, he's got a handle on things," said Robert Laughlin, senior broker at MF Global Ltd. in London. "But even he admitted things are going to get a lot worse before they get better." Oil for January delivery rose for the first time in seven days, gaining as much as 6.5 percent to \$43.47 a barrel on the New York Mercantile Exchange. The contract traded at \$43.1 at 10:42 a.m. London time. Copper futures rose as much as 7.3 percent in London, while corn advanced 5.4 percent.

#### [2. CONTANGO PAYS MOST IN DECADE AS SHELL STORES CRUDE](#)

By Robert Tuttle and Alexander Kwiatkowski

Dec. 8 (Bloomberg) -- In the worst year ever for oil, investors can lock in the biggest profits in a decade by storing crude. Traders who bought oil at the \$40.81 a barrel on Dec. 5 could sell futures contracts for delivery next December at \$54.65, a 34 percent gain. After taking into account storage and financing costs investors would earn about 11 percent, according to Andy Lipow, president of Houston consultant Lipow Oil Associates LLC. The premium, known as contango, is the biggest for a 12-month span of futures since 1998, when a glut drove crude down to \$10. Stockpiling crude may provide higher returns than commodities, stocks and Treasuries as the U.S., Japan and Europe endure simultaneous recessions for the first time since World War II. Crude sank 72 percent in New York since peaking at \$147.27 in July. The Standard & Poor's 500 Index fell 40 percent this year and two-year government notes yield 0.9 percent. "The bottom line is that you buy crude at a low price and lock in a profit by selling it forward," said Mike Wittner, head of oil market research at Societe Generale SA in London. "It's low risk. The contango can definitely pay for storage and the cost of capital and leave plenty left over."

#### [3. OIL PRICE COULD FALL TO \\$US25 A BARREL, ANALYSTS SAY](#)

By Stephen McMahon and wires

Herald Sun

December 08, 2008 07:17am

CRUDE oil prices have collapsed to just above \$US40 a barrel as the global recession deepens in the United States, Japan and across Europe. Some analysts are even tipping that prices could go as low as \$US25 a barrel next year if the global downturn hits hard in China and OPEC doesn't drastically slash its production levels. Any optimism that oil prices had stabilised at around the \$US50 mark have evaporated in the past week as it becomes clear the US, Europe and Japan, which collectively consumed almost 50 per cent of the world's oil in 2007, are entering their first simultaneous recession since World War II. China is responsible for only 9 per cent of global oil demand. The latest fall in oil prices was sparked by recent unemployment data in the US, which showed 533,000 people were laid-off in November -

exceeding all economists forecasts. "It's all about the economy," FIG managing principal Christopher Edmonds said. "There's not much that can be done right now to keep (oil) prices from falling off a cliff."

#### **4. LIBYA TO SEEK 'SUBSTANTIAL' OIL PRODUCTION CUT AT OPEC MEETING**

By Maher Chmaytelli

Dec. 8 (Bloomberg) -- OPEC, the supplier of more than 40 percent of the world's oil, should make a "substantial" output cut when it meets next week to boost crude prices, Libya's top oil official said. "The market is in upheaval, all the countries are stepping in to protect their markets, their industries, OPEC should do the same for the oil market," the chairman of Libya's National Oil Corp, Shokri Ghanem, said in a phone interview from Tripoli today. "Everyone at OPEC agrees that the market needs support, I think that our action should be substantial." Ghanem declined to specify the size of the output cut that he would seek at the meeting of the Organization of Petroleum Exporting Countries on Dec. 17 in Oran, Algeria. "That would be left to the meeting to decide," he said.

#### **5. IRAN SET FOR A YEAR OF LIVING DANGEROUSLY**

Iran enters 2009 with economic woes to the fore and plummeting oil revenues set to restrict President Mahmoud Ahmadinejad's public spending in an election year marked by continued international tension.

Pierre Celerier  
AFP

The Islamic Republic faces fresh uncertainty as newly elected US president Barack Obama takes the helm in the White House with Tehran's controversial nuclear ambitions sure to feature high on his foreign policy "to do" list. But the simmering nuclear crisis was overshadowed by domestic policy in 2008, as Ahmadinejad faced mounting criticism at home over soaring inflation and a faltering economy. The hardline president responded by dismissing key figures including economy minister Davood Danesh Jafari and central bank chief Tahmasb Mazaheri. Both had been highly critical, with Mazaheri favouring liberalisation of bank rates and strict controls on loans to reduce inflation, which reached nearly 30 percent in autumn from about 10 percent in 2005. "Creating employment by injecting money into (the economy) is a mirage. We must seek the water and not a mirage," Mazaheri said in a parting shot in October at the president's expansionary economic policies.

#### **6. SAUDI ARAMCO TO CUT JANUARY OIL SUPPLIES TO JAPAN**

By Shigeru Sato and Yuji Okada

Dec. 8 (Bloomberg) -- Saudi Aramco, the world's biggest state oil company, will reduce crude supplies to Japan in January for the second month as global demand for fuel slumps. The Dhahran, Saudi Arabia-based producer will cut shipments to Japanese refiners including Nippon Oil Corp., Idemitsu Kosan Co. and Cosmo Oil Co. by 7 to 10 percent from levels agreed under annual contracts, said officials at two refineries who received notices today from the company. They asked not to be identified because of confidentiality agreements. "The kingdom's cuts in January-loading volume mean that there's a supply glut in the global oil market," Ken Hasegawa, Tokyo-based commodity derivatives sales manager at Newedge Group, said by telephone. "This also indicates that OPEC will most likely announce a substantial reduction next week." Chakib Khelil, president of the Organization of Petroleum Exporting Countries, said there was consensus for a significant production cut, the Associated Press reported, citing an interview. The cartel agreed on Oct. 24 to slash output by 1.5 million barrels a day, the first cut in two years, after global demand fell.

#### **7. ARABS URGED TO PURSUE PETROCHEMICAL PROJECTS**

By Nadim Kawach  
Business 24/7  
Monday, December 08, 2008

Gulf states and other Arab oil producers need to push ahead with costly petrochemical projects to diversify their economies despite the ongoing global financial crisis, according to an official study. Although the tightening in the world credit markets could hamper the implementation of some of those

projects, Arab states could still resort to the equity option by inviting more foreign partners into such ventures to secure funds, said the study by the 10-nation Organisation of Arab of Petroleum Exporting Countries (Oapec). In its latest monthly bulletin, Oapec said petrochemical producers in the Arab world have achieved substantial progress in their drive to build petrochemical industries over the past two decades and new projects could allow them to maintain their position as key global players in the industry. In the next two years, the six Gulf Cooperation Council (GCC) countries and other Arab oil producers are expected to account for nearly 50 per cent of the new petrochemical output capacity to be added worldwide, it said.

## **8. CHAVEZ SAYS VENEZUELA ECONOMY TO FACE DIFFICULT YEARS**

By Daniel Cancel

Dec. 7 (Bloomberg) -- Venezuelan President Hugo Chavez said his country's economy will face difficult years ahead as the world financial crisis expands and demand for oil, Venezuela's principal export, wanes. Venezuela is prepared to confront the crisis and should restrict spending to strictly necessary items while saving as much as possible, Chavez said in comments on state television. "The world is in crisis," he said. "It hasn't hit Venezuela yet, but we can't say that a crisis of this magnitude, depth and impact won't affect us. The economy will go through difficult moments in coming years without a doubt. But Venezuela has what it takes to navigate through the storm." Venezuela, the biggest oil exporter in the Western Hemisphere, depends on oil for 90 percent of its export revenue and 50 percent of its government spending. Chavez has called on his government to follow an "austere" budget next year and to reduce spending. The Venezuelan oil basket, a benchmark of prices for oil exports, dropped 12.9 percent last week to \$34.49 a barrel on Dec. 5, according to the Energy and Oil Ministry which publishes the basket price each week. The price for Venezuelan oil has plunged 73 percent from a record in July.

## **9. CHÁVEZ AGAIN SEEKS TO SCRAP TERM LIMITS**

Venezuelan Leader Could Rule Until 2019

By Juan Forero  
Washington Post Foreign Service  
Monday, December 8, 2008; A10

BOGOTA, Colombia, Dec. 7 -- All this month, Venezuelan President Hugo Chávez has explained in one speech after another how he would like nothing more than to leave office when his term ends in 2013. But the Venezuelan people are urging him to remain in the presidency, Chávez has said, and he will not disappoint. "I am not the one planting this. It is the people who are planting this," Chávez said Wednesday before red-shirted supporters in the coastal city of Cumana. "I would prefer to leave in four years, for many reasons -- human and personal reasons. But in the end, at this stage in my life, I am conscious that I do not belong to myself."

## **10. OIL'S FALL PINCHES LATIN NATIONS**

By John Otis  
Houston Chronicle  
Dec. 6, 2008, 12:26AM

BOGOTÁ, COLOMBIA — During the five-year bonanza of rising oil prices, resource nationalism took hold across Latin America, and energy-producing countries boosted spending, raised taxes on foreign oil companies and salted away billions in petrodollars. But with the onset of the global economic crisis and the collapse in oil prices, Venezuela, Mexico and other regional energy producers are feeling the squeeze. If prices don't rebound soon, the countries will be forced to cut spending on popular programs or dig into their reserves. Governments also will probably see slowdowns or cancellations of energy projects ranging from explorations to biofuels plants. "The old assumptions are out the window," said RoseAnne Franco, a Latin America analyst at PFC Energy in Washington. Lower prices "are forcing a very strong readjustment for all concerned." Benchmark light, sweet crude has dropped to near \$40 a barrel from its record close above \$145 in July. Venezuela, the world's seventh-largest exporter, saw the price of its oil — which sells for less than the benchmark crude because of its higher viscosity and sulfur content — drop to \$39 per barrel, its lowest level since May 2005. Venezuela uses oil revenue to fund much of its \$77 billion annual budget.

## **11. EU ENERGY CONSENSUS - TRENDING IN THE RIGHT DIRECTION**

Posted by Jerome Paris  
The Oil Drum: Europe  
December 7, 2008 - 8:16pm

I was invited last Monday to a seminar organised by the French government as part of the presidency of the EU on the theme of energy security. A lot of heavy hitters speaking: former IEA boss Mandil chaired the whole process, current IEA boss Tanaka spoke, as did the CEOs of E.ON, Total or Dow Europe, various high level EU Commission members and EU ministers. Here are some notes of what I found interesting in the first part of the conference (I missed the second half, but part of it was a summary of the first part for ministers, and the other part was ministerial speeches). No media was authorised at the meeting, so this is an exclusive summary, which the organisers in the French ministry of industry have kindly allowed me to post. Tanaka spoke first, to provide a summary of the WEO: he called it "shocking but interesting" (his exact words) which I found notable (and a hint maybe of the internal conflicts that the IEA faced on the topic). He flagged the "serious investment issue" the world faces, as well as the risk of a serious supply crunch when demand comes back after the current crisis. He strongly supported the idea of a stimulus package focused on sustainable energy, calling a "Green New Deal" an excellent thing.

## **12. CRISIS HAS CHINA LOOKING INWARD**

By Alan Wheatley  
Reuters  
Monday, December 8, 2008

BEIJING: Who would have thought a few months ago that China might end up remembering 2008 not for the Beijing Olympics or the Sichuan earthquake but for the demise of the country's model of economic development? "Might" is the operative word. China's attachment to investment, exports and heavy industry runs deep. After all, these have been the drivers of the remarkable growth that China has enjoyed since it embarked on market reforms 30 years ago this month, lifting hundreds of millions of people out of poverty in the process. But the closure of thousands of factories as export demand evaporates has dealt a serious blow to China's confidence. President Hu Jintao has gone so far as to say that turning the challenges posed by the credit crisis into opportunities would be a test of the Communist Party's capacity to govern. China, in short, realizes it needs to stand on its own feet and rely less on exports.

## **13. POWER CUT TO CONTINUE FOR 5 MORE YEARS IN NEPAL**

KATHMANDU, Dec. 8 (Xinhua) -- On account of insufficient resources and inability to meet prevailing demand for electricity, load-shedding will continue in the country at least for five more years, the Nepal Electricity Authority (NEA) has said. Water levels of as much as hydropower projects have declined due to snow freezing in their sources, Danda Pani Basyal, NEA public relation director was quoted by Monday's The Rising Nepal daily as saying. "This has forced us to supply inadequate electricity to the ever expanding demand," he said. Currently, the country produces 617 MW power. Besides this, there are some micro hydropower and solar electricity projects in rural areas. Despite this, the country needs at least 722 MW of electricity and the demand is on the rise. The NEA last week decided to increase the weekly load shedding hours. The increase would be up to 45 hours from the present 35 hours in parts of the country.

## **14. SENATE RETURNS TO AUTO BAILOUT TALKS**

By Thomas Ferraro and John Crawley  
Mon Dec 8, 2008 5:45am EST

WASHINGTON (Reuters) - The U.S. Senate was due to reconvene on Monday as White House and Democratic congressional negotiators sought to draft legislation to bailout the U.S. auto industry and stem a deepening of the U.S. recession. Even if they manage to finalize an agreement in principle to provide the "Big Three" automakers with at least \$15 billion in short-term loans, it was uncertain if it would become law. Democrats have a majority in the 100-member Senate, which could begin consideration of legislation within days. But skeptical Republicans could kill such a measure with a procedural hurdle that

would need 60 votes to clear. Democratic Sen. Carl Levin of Michigan, where the U.S. auto industry is centered, said he was confident there would be a deal by Monday, but uncertain if there would be the votes. "That's a much more complicated question," Levin told "Fox News Sunday." Democratic negotiators modified their draft proposal on Sunday, a congressional aide said, and planned to get it to the White House for consideration.

## **15. BIG THREE BAIL-OUT COULD HIT GREEN CARS**

By Richard Waters in San Francisco  
Financial Times  
December 7 2008 19:01

The nascent US electric car industry could be put at risk because of the short-term focus on bailing out the Big Three carmakers, according to two of the leading Silicon Valley entrepreneurs involved in the field. The diversion of government money and policy attention to solve the Detroit crisis threatens to stifle an industry with important long-term strategic value at a vulnerable point in its development, they added. "It's kind of silly to say that the Big Three are going bankrupt making the gas guzzlers they've always made, and then give the money to them," said Elon Musk, founder of Tesla Motors, which began low-volume production of an electric sports car this year. He added that "a substantial capital injection is needed in the electric vehicle industry" for it to reach significant scale. Shai Agassi, founder of Better Place, which aims to build the recharging infrastructure to support electric vehicles, added that significant government support and a radical overhaul of incentives were needed to boost both supply and demand for electric vehicles. Otherwise, "none of this will happen in the US", he said.

## **16. SHORT SUPPLY: AMERICAN-MADE ELECTRIC CAR BATTERIES**

The key component for America's automotive rebirth isn't even made here.

By Bill Moore  
EV World

As Big 3 CEO's, the head of the UAW, and various invited economic experts appeared before Congress this week, one key witness was missing, which is ironic, because the success or failure of a revitalized American auto industry pivots around its presence. That missing witness is an American advanced automotive battery manufacturing industry. With all the talk on Capitol Hill this week about Big 3's plans to introduce advanced, plug-in electric cars, with the CEO's dramatically arriving to testify in conventional hybrids and advanced prototype plug-in models, little if any attention was paid to the fact that America has next to no advanced automotive lithium ion battery production capacity. With the exception of a currently shrinking handful of US-based firms, virtually all advanced nickel metal hydride (NiMH) and lithium ion (Li-ion) production is done overseas, mainly in China, Japan and Korea.

## **17. RUSSIAN OIL OUTPUT TO FALL AFTER 2020: NATIONAL ENERGY MINISTRY**

Moscow (Platts)—8 Dec 2008

Russia's energy ministry believes that the country's oil production will stabilize at 535 million mt/year (10.7 million barrel/day) by 2020, after which it will start falling, a ministry's official said Monday. Under the basic scenario of the draft energy strategy until 2030, the country's oil production will reach 500 million mt/year in 2010, 530 million mt/year in 2015, 535 million mt/year in between 2020 and 2025, and 530 million in 2030, said Vitaly Bushuyev, the general director of the ministry's institute of energy strategy. "We need to be prepared for [the decline in output]," Bushuyev told an energy forum in Moscow, adding that international oil prices were likely to fall after 2012 to "the level of minimum profitability of the oil business." "The significance of the oil business in the world will start reducing after 2015 to 2020 as the world economy will switch to innovative paths of development," he said. The strategy also envisages crude oil exports to the countries outside the Commonwealth of Independent States--which comprises 12 states of former Soviet Republics--to be up to 214 million/mt in 2010, 229 million mt/year in 2015, 225 million mt/year in 2020, 221 million mt/year in 2025, and 212 million mt/year in 2030.

## **18. SHTOKMAN CO SAYS LOANS KEY FOR START-UP**

Mon Dec 8, 2008 4:44am EST

MOSCOW, Dec 8 (Reuters) - Availability of credit resources will determine the start-up date of one of the world's biggest gas project, Shtokman, the head of the Shtokman Development Company said on Monday. "Liquidity and the possibility of attracting credit resources is a very important issue. I have to say this is one of the most serious issues, which will determine the beginning of the project development start," Yuri Komarov told reporters adding he hoped to raise the first funds in 2009. Komarov is heading the Shtokman Development Co, which combines Gazprom (GAZP.MM: Quote, Profile, Research, Stock Buzz), Total (TOTF.PA: Quote, Profile, Research, Stock Buzz) and StatoilHydro (STL.OL: Quote, Profile, Research, Stock Buzz). The group needs \$15-\$20 billion to start the first phase, planned for 2013-2014.

### **Discussion and Analysis**

## **19. START MAKING SENSE**

America must end its denial about gas taxes.

Washington Post Editorial

Monday, December 8, 2008; A18

THERE IS a certain unreal quality to current debate over the state of the U.S. economy, national security and the environment. As Detroit's Big Three automakers approach bankruptcy, dangerous oil-exporting states threaten international stability and climate change continues unchecked, Congress and the incoming Obama administration ponder costly and complex proposals to address these related crises. Under consideration are tens of billions of dollars in loans to the car companies; sanctions and diplomacy targeted at Iran, Russia and others; and a cap-and-trade system for carbon emissions. Each of these may have its place. What's striking, though, is that the only idea that seems to be off the table is the one that would address all three concerns directly and efficiently: higher gas taxes. This step would stimulate the market for new fuel-efficient cars; defund mischief-making petro-states; and cut carbon emissions. Not only that, it would reduce traffic, curb urban sprawl and, by giving drivers an incentive to drive more slowly, improve highway safety.

### **Alternatives**

## **20. SHELL CONSORTIUM TO PULL OUT OF UK WIND PROJECT**

Sun Dec 7, 2008 2:45pm GMT

LONDON, Dec 7 (Reuters) - British oil major Royal Dutch Shell Plc confirmed on Sunday that the company and its partners have withdrawn from a major UK wind energy project. The consortium of Shell, Scottish Power (SPW.PZ: Quote, Profile, Research) and Denmark's Dong Energy have abandoned the Cirrus Array project off the Northwest coast after denying a month ago that it had exited the project. "The consortium has pulled out of the project," a spokesman told Reuters. The project had been blighted by concerns from the Ministry of Defence over radar interference from turbines, said the Sunday Times. "We tried hard to find solutions to solve the problems with the military interest," the Shell spokesman said. Shell will have just one small wind project in the UK after abandoning Cirrus and will focus its attentions on wind energy projects in North America, the spokesman added.

## 21. THINK TANK: A HIGH ENERGY SOLUTION

Cliff-top reservoirs could meet all of our power needs

Igor Shvets  
The Sunday Times

Ireland has to generate more than 95% of its energy from imported fossil fuels. This arises from our geographical and geological position as a rocky outcrop in the Atlantic Ocean, where fossil fuels could not accumulate to any great extent. But our location is a great asset in terms of power generation. Along with Scotland, Ireland is among the most favourable locations in Europe for wind-power generation. It is estimated that we use about 24 billion kilowatts (kwh) of energy every year. So if you covered four regions of 12 square kilometres with wind turbines of a cumulative capacity of 12 megawatts (mw) per square kilometre, operating at 40% efficiency, you could provide all of Ireland's electricity requirements. This could be an attractive proposition for farmers in the west whose income base is under stress — they could earn additional income by allowing wind turbines to be located on their land. They could still farm the land with the turbines installed. Farmers in the west often think that their main asset is their land. In fact, it's the wind that blows over it.

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### 1. OIL, COPPER ADVANCE AFTER OBAMA PROMISES PUBLIC WORKS SPENDING

By Shigeru Sato and Eduard Gismatullin

Dec. 8 (Bloomberg) -- Oil, copper and corn rose after President-elect Barack Obama pledged the biggest U.S. public works program in about 50 years to revive the economy.

Commodities rebounded from last week's losses on speculation spending on roads, bridges and repairing school buildings will boost raw material demand and engineer a recovery in the world's largest economy. Obama said that his economic plan would create or preserve more than 2.5 million jobs.

"Obama's speech was positive in some respects -- that, yes, he's got a handle on things," said Robert Laughlin, senior broker at MF Global Ltd. in London. "But even he admitted things are going to get a lot worse before they get better."

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Libya's top oil official, Shokri Ghanem, said today OPEC should make a "substantial" output cut at its meeting next week. Chakib Khelil, president of the Organization of Petroleum Exporting Countries, said on Dec. 6 that the group may make a "severe" reduction in production to stem the 70 percent decline in prices from July's record.

Oil fell the most since 1991 and metal prices slumped last week after economic data showed the recession is getting worse. The U.S. economy lost 533,000 jobs in November, the most since 1950 bar two months when the decline was inflated by a strike or natural disaster.

'Get Economy Moving'

Even with the prospect of a federal budget shortfall approaching \$1 trillion, "we can't worry, short term, about the deficit," Obama said yesterday on NBC's "Meet the Press" program. "We've got to make sure that the economic stimulus plan is large enough to get the economy moving."

The dollar dropped versus the euro, adding support to commodity prices. A weaker U.S. currency increases demand for commodities as a hedge and makes raw materials cheaper for foreign buyers. It dropped to 77.65 cents versus the euro.

Copper for March delivery rose for the first time in eight days, reaching a high of \$3,274 a ton on the London Metal Exchange. It traded at \$3,252 a ton at 10:28 a.m. London time. Corn futures for December delivery rose to \$3.0750 a bushel on the Chicago Board of Trade.

The U.S. stimulus plan prompted equities in Europe and Asia to rally and U.S. index futures to climb. The MSCI World Index added 2.7 percent to 871.09 at 10:01 a.m. in London as all 10 industry groups increased.

Commodities' rise "is more equity influence than anything else," Kevin Tuohy, a trader at MF Global, said today by phone. "It's still too early to say whether the rebound is a dead-cat bounce or that commodities have found a base."

#### Aramco Cuts

Saudi Aramco, the world's biggest state oil company, will reduce crude oil supplies to Japan in January for the second month. The Dhahran, Saudi Arabia-based producer will cut shipments to refiners including Nippon Oil Corp., Japan's largest, by 7 to 10 percent from levels agreed under annual contracts, said two refinery officials who received notices from the company today.

Brent crude oil for January settlement rose as much as \$2.64, or 6.6 percent, to \$42.28 a barrel on London's ICE Futures Europe exchange. It traded at \$42 at 10:29 a.m. local time.

The Organization of Petroleum Exporting Countries pumps more than 40 percent of the world's oil and cut daily output 1.5 million barrels in October as prices slumped and inventories rose. Khelil said in an interview with the Associated Press that a consensus had formed among the 13-member group that a significant reduction in output is needed.

"The oil price is now on the brink of an abyss," said Tetsu Emori, Tokyo-based chief manager of the 1.4 billion yen (\$15 million) Astmax Commodity Global Macro Fund. "Even if the cartel makes a substantial production cut, it won't be enough to lift oil prices back up to the \$60 mark if we see more drops in U.S. consumer spending."

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## 2. CONTANGO PAYS MOST IN DECADE AS SHELL STORES CRUDE

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"The bottom line is that you buy crude at a low price and lock in a profit by selling it forward," said Mike Wittner, head of oil market research at Societe Generale SA in London. "It's low risk. The contango can definitely pay for storage and the cost of capital and leave plenty left over."

Royal Dutch Shell Plc sees so much potential in the strategy that it anchored a supertanker holding as much as \$80 million of oil off the U.K. to take advantage of higher prices for future delivery. The ship is

one of as many as 16 booked for potential storage instead of transporting crude, said Johnny Plumbe, chief executive officer of London shipbroker ACM Shipping Group Plc.

### Oil Storage

The tankers, if full, hold about 26 million barrels worth about \$1 billion, more than the 22.9 million barrels sitting in Cushing, Oklahoma, where oil is stored for delivery against Nymex contracts. U.S. crude inventories rose 11 percent this year to 320.4 million barrels, according to the Energy Department.

"All the market operators keep placing oil in storage," said Francisco Blanch, head of global commodities research at Merrill Lynch & Co. in London. "Even though the contango is steep, it could get steeper."

Crude oil for January delivery rose as much as \$1.93, or 4.7 percent, to \$42.74 a barrel in after-hours electronic trading on the New York Mercantile Exchange. It was at \$42.60 at 12:30 p.m. Tokyo time.

Blanch said last week that oil may fall to \$25 a barrel should the Chinese economy slip into recession and the Organization of Petroleum Exporting Countries fail to take enough crude off the market.

### Shell, Koch

The Hague-based Shell, Europe's largest oil company, last month chartered the supertanker Leander with an option to store North Sea Forties crude, according to Paris shipbroker Barry Rogliano Salles. The vessel arrived at Scotland's Hound Point, the loading port for Forties, on Nov. 20, according to tracking data compiled by Bloomberg. Sally Hepton, a London-based spokeswoman at Shell, declined to comment.

Shell and Koch Industries Inc. of Wichita, Kansas, also hired four supertankers to hold oil in the U.S. Gulf Coast to take advantage of rising prices in the months ahead. They took Very Large Crude Carriers, or VLCCs, to move oil from the Middle East, said Bruce Kahler, a broker at Lone Star, R.S. Platou in Houston.

Koch Supply & Trading LP spokeswoman Katie Stavinoha declined to comment.

The cost to store crude at Cushing averages about 35 cents a barrel a month, Lipow said in an interview. The cost of financing the crude would also be about 35 cents a month. A trader would have to take ownership of the oil in January 2009 and deliver it during December, according to Nymex rules.

### Supertanker Storage

A supertanker would cost about 90 cents a barrel per month for storage, according to data from shipbroker Galbraith's Ltd. The amount varies, depending on the duration of the storage.

"The economics make sense if you can find somewhere to store the oil," said Tony Quinn, managing director of Lincolnshire, U.K.-based Global Storage Agency Ltd., a bulk liquid storage terminal consultant. With depots in Europe almost full, "companies don't have anything else they can do, so are chartering commercial tankers for floating storage."

The reduced availability of credit may make it harder for traders and companies to purchase and store oil, said Merrill's Blanch and Societe Generale's Wittner.

"With this sort of contango, we would probably have seen a larger stock build were it not for the credit crunch," said Olivier Jakob, managing director of consultant PetroMatrix in Zug, Switzerland.

The opportunity to benefit from the storage trade may disappear in weeks should OPEC cut output after its Dec. 17 meeting in Algeria. The group postponed a decision on production at its Nov. 29 gathering in Cairo.

"It's still quite profitable as long as inventories are ample and OPEC does not remove the barrels from the market," said Johannes Benigni, chief executive officer at Vienna-based consultancy JBC Energy GmbH.

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The latest fall in oil prices was sparked by recent unemployment data in the US, which showed 533,000 people were laid-off in November - exceeding all economists forecasts.

"It's all about the economy," FIG managing principal Christopher Edmonds said.

"There's not much that can be done right now to keep (oil) prices from falling off a cliff."

Since oil prices peaked in July at \$US147 a barrel, they have already dropped 72 per cent to a low of \$US40.81.

But Merrill Lynch commodity strategist Francisco Clanch said there is possibility it could go even lower if the economic outlook worsens.

"Potentially, under a number of circumstances including a recession in China and a failure from OPEC to cut enough output, we could see prices dipping all the way to \$US25 a barrel," he said.

"We're not forecasting that. We're saying its might happen."

Merrill Lynch is tipping oil prices will stabilise at about \$US50 a barrel in 2009.

Macquarie Bank interest rate strategist Rory Robertson warned the global recession is "just warming up" and there is more pain ahead.

"Petrol prices are down sharply across the world, though many consumers now have new things to worry about, including job security," Mr Robertson said.

OPEC is however expected to cut its oil output at its next meeting in Algeria on December 17.

OPEC president Chakib Khelil suggested over the weekend that reductions could be "severe" in a bid to bolster plunging oil prices.

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

"The best way is to surprise them"

But the oil cartel, which is responsible for about 40 per cent of global oil production, is believed to be divided.

The Iranian and Venezuelan governments are believed to want to keep prices high in a bid to boost their own domestic spending projects.

But Saudi Arabia - Opec's largest and most long-term looking member - is likely to be supportive of production cuts to let prices stabilise to aid its major customers in the developing world, who are struggling from the credit crunch.

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#### 4. LIBYA TO SEEK 'SUBSTANTIAL' OIL PRODUCTION CUT AT OPEC MEETING

By Maher Chmaytelli

Dec. 8 (Bloomberg) -- OPEC, the supplier of more than 40 percent of the world's oil, should make a "substantial" output cut when it meets next week to boost crude prices, Libya's top oil official said.

"The market is in upheaval, all the countries are stepping in to protect their markets, their industries, OPEC should do the same for the oil market," the chairman of Libya's National Oil Corp, Shokri Ghanem, said in a phone interview from Tripoli today. "Everyone at OPEC agrees that the market needs support, I think that our action should be substantial."

Ghanem declined to specify the size of the output cut that he would seek at the meeting of the Organization of Petroleum Exporting Countries on Dec. 17 in Oran, Algeria. "That would be left to the meeting to decide," he said.

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#### 5. IRAN SET FOR A YEAR OF LIVING DANGEROUSLY

Iran enters 2009 with economic woes to the fore and plummeting oil revenues set to restrict President Mahmoud Ahmadinejad's public spending in an election year marked by continued international tension.

Pierre Celerier  
AFP

The Islamic Republic faces fresh uncertainty as newly elected US president Barack Obama takes the helm in the White House with Tehran's controversial nuclear ambitions sure to feature high on his foreign policy "to do" list.

But the simmering nuclear crisis was overshadowed by domestic policy in 2008, as Ahmadinejad faced mounting criticism at home over soaring inflation and a faltering economy.

The hardline president responded by dismissing key figures including economy minister Davood Danesh Jafari and central bank chief Tahmasb Mazaheri.

Both had been highly critical, with Mazaheri favouring liberalisation of bank rates and strict controls on loans to reduce inflation, which reached nearly 30 percent in autumn from about 10 percent in 2005.

"Creating employment by injecting money into (the economy) is a mirage. We must seek the water and not a mirage," Mazaheri said in a parting shot in October at the president's expansionary economic policies.

In May, Ahmadinejad sacked interior minister Mostafa Pour-Mohammadi, a mid-ranking conservative cleric, who said afterwards that the president could not take criticism.

The economy remains Ahmadinejad's Achilles heel and the nose-dive in world oil prices, which have plunged to four-year lows from a record high of 147 dollars in July, could cost him dearly in the run-up to the June election.

Iran is OPEC's second largest producer, and half of the country's budget is dependent on its crude exports.

Ahmadinejad swept to power in 2005 on a populist campaign of ploughing huge amounts of oil-generated cash into local infrastructure and granting low-interest business loans to create jobs.

With a presidential election looming next June, the cracks have already begun appearing among Iran's conservatives.

Conservatives from two competing lists tightened their grip on power in March 2008 parliamentary polls, with Ahmadinejad rival and former nuclear negotiator Ali Larijani elected speaker of the house.

In November, parliament impeached interior minister Ali Kordan after just three months in the job for lying about his credentials and presenting a fake degree from Oxford University.

The scandal greatly embarrassed Ahmadinejad, who had defended his man throughout the controversy.

Kordan's successor, close Ahmadinejad ally Sadeq Mahsouli, was approved by just a thin margin, highlighting the conservative split.

Ahmadinejad has yet to officially announce his bid for re-election in 2009, and Tehran's conservative mayor Mohammad Baqer Qalibaf has been mooted as a potential candidate.

But supreme leader Ayatollah Ali Khamenei, who has the final say on all key policy issues, has expressed support for conservatives and urged Ahmadinejad to work as if he will stay in power for four more years.

In an apparent comparison with Mohammad Khatami's two-term reformist presidency from 1997 to 2005, Khamenei in August praised Ahmadinejad for "blocking dangerous trends of Westoxification and secularism."

Ahmadinejad said he would wear this endorsement as a "medal of pride."

Despite giving Ahmadinejad his seal of approval, however, Khamenei also urged him to keep a tighter control on inflation.

In the reformist camp, former parliament speaker Mehdi Karroubi has confirmed his candidacy, and there has also been speculation that Khatami may seek a third term.

A major shadow hanging over the country as it heads into 2009 will be the confrontation with the West over its controversial nuclear programme. Tehran stands accused of seeking atomic weapons, a charge it denies.

In 2008, it continued to defy UN demands and pursue uranium enrichment -- the process which makes nuclear fuel but can also be used to make the fissile core of an atom bomb.

Iran increased its enrichment centrifuges to more than 5,000 from 3,000 last year, despite two new UN Security Council resolutions reaffirming existing sanctions against it and calling for an enrichment freeze.

Tehran insists its nuclear programme is aimed only at producing electricity and angrily points to Israel's widely believed status as the sole -- if undeclared -- nuclear-armed nation in the Middle East.

Alarmed by Iran's nuclear progress, Israel has never ruled out military action to thwart Tehran's nuclear drive. Ahmadinejad continues to launch verbal attacks on the Jewish state, calling it a "dirty microbe" and "savage animal."

Despite the simmering tensions with arch-foe the United States, Ahmadinejad took the unprecedented step of congratulating Obama on his election.

After three decades of outright hostility, many Iranians believe an Obama administration may help to improve relations.

In the early stages of his election campaign, Obama said he favoured unconditional direct talks with Tehran, but has since hardened his position.

"Iran's development of a nuclear weapon I believe is unacceptable. We have to mount an international effort to prevent that from happening," he told his first news conference after securing the US presidency.

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## 6. SAUDI ARAMCO TO CUT JANUARY OIL SUPPLIES TO JAPAN

By Shigeru Sato and Yuji Okada

Dec. 8 (Bloomberg) -- Saudi Aramco, the world's biggest state oil company, will reduce crude supplies to Japan in January for the second month as global demand for fuel slumps.

The Dhahran, Saudi Arabia-based producer will cut shipments to Japanese refiners including Nippon Oil Corp., Idemitsu Kosan Co. and Cosmo Oil Co. by 7 to 10 percent from levels agreed under annual contracts, said officials at two refineries who received notices today from the company. They asked not to be identified because of confidentiality agreements.

"The kingdom's cuts in January-loading volume mean that there's a supply glut in the global oil market," Ken Hasegawa, Tokyo-based commodity derivatives sales manager at Newedge Group, said by telephone. "This also indicates that OPEC will most likely announce a substantial reduction next week."

Chakib Khelil, president of the Organization of Petroleum Exporting Countries, said there was consensus for a significant production cut, the Associated Press reported, citing an interview. The cartel agreed on Oct. 24 to slash output by 1.5 million barrels a day, the first cut in two years, after global demand fell.

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

Saudi Aramco cut supplies to Japanese refiners by 5 to 6 percent in December, refinery officials said last month.

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## 7. ARABS URGED TO PURSUE PETROCHEMICAL PROJECTS

By Nadim Kawach

Business 24/7

Monday, December 08, 2008

Gulf states and other Arab oil producers need to push ahead with costly petrochemical projects to diversify their economies despite the ongoing global financial crisis, according to an official study.

Although the tightening in the world credit markets could hamper the implementation of some of those projects, Arab states could still resort to the equity option by inviting more foreign partners into such ventures to secure funds, said the study by the 10-nation Organisation of Arab of Petroleum Exporting Countries (Oapec).

In its latest monthly bulletin, Oapec said petrochemical producers in the Arab world have achieved substantial progress in their drive to build petrochemical industries over the past two decades and new projects could allow them to maintain their position as key global players in the industry.

In the next two years, the six Gulf Cooperation Council (GCC) countries and other Arab oil producers are expected to account for nearly 50 per cent of the new petrochemical output capacity to be added worldwide, it said.

Saudi Arabia, the world's oil superpower which controls nearly a quarter of the global crude deposits, is projected to pump nearly 15 per cent of the world's petrochemical production by 2015 as the Kingdom is pressing ahead with mega projects in collaboration with foreign partners.

The expansions are expected to boost the output of petrochemicals, fertilizers and other products by the Kingdom's government-controlled petrochemicals giant Sabic to more than 60 million tonnes in 2008 and 100m tonnes in 2010 from around 55m tonnes in 2007.

The surge in Sabic's output in 2007 allied with a sharp rise in petrochemical prices to push up its net profits to a record SR21.7 billion in the first nine months of 2008 and the income is set to touch SR30bn through the year.

Citing figures by its affiliate, the Arab Petroleum Investment Corporation (Apicorp), Oapec said Arab nations invested in excess of \$57 billion in energy projects in 2006 and nearly 82 per cent of the allocations covered petrochemicals, fertilizers and petroleum products.

"The Arab countries have many resources that enable them to set up an integrated petrochemical industry. They include feedstock in the form of natural gas and oil derivatives, a market with high consumption rates, a location midway between the east and the west, and basic infrastructure that is continually being improved," the Kuwait-based Oapec said.

"Investment in the petrochemical industry of Arab countries is attractive to both local and foreign investors. Some international companies have started to move their industrial facilities to the region, which requires concerted efforts to maintain security and economic stability and keep the region clear of geopolitical tensions. Oapec looks forward to the establishment of more joint ventures, cooperation, and skills transfer between Arab countries and with other partners... this will help overcome all technical obstacles and cut investment risks in the form of unforeseen circumstances."

According to the study, the petrochemical industry is a major global industry, and a cornerstone of industrial development. It said petrochemical projects require huge investments and advanced technology and added they play a vital role in supporting economic diversification plans in member states.

"They give high returns, since basic petrochemicals are seven times the price of oil, intermediate petrochemicals are 10-100 times, and final petrochemicals are 30-500 times.... these good economic indicators have encouraged the Arab countries to embark on large petrochemical projects," it said.

"Moreover, they have sophisticated economic policies aimed at achieving several strategic goals. These include diversification of revenue sources, optimal investment of resources by boosting the value added, attracting modern technology, developing the skills of the national workforce, expanding the establishment of secondary industries, and promoting trade with various countries, including East Asian developing countries that are rapidly becoming industrialised... such a climate will allow this and other industries to establish a foothold and become firm pillars of sustainable development in Oapec member countries."

In a recent study, the Dammam-based Apicorp said petrochemicals and other downstream gas projects in the Arab region and North Africa are expected to receive the lion's share of the total energy investments in the next five years.

It estimated the capital needed for those downstream projects at around \$141bn during 2008-2012, nearly 30 per cent of the total energy investments of around \$490bn during that period.

But the study noted that securing funding for such massive projects would be difficult in the present situation while other studies expected some petrochemicals and other downstream ventures to be shelved.

" Although the overall capital structure has slightly shifted to equity, securing the appropriate amount and mix of debt will be considerably more challenging... despite that shift, loans sought for projects in the region surged by nearly 25 per cent last year to around \$49bn in 2007," Apicorp said.

"With growing risk aversion, the appetite for debt issued in the region may be subdued... the market for project finance is in severe dislocation... local banks tend to concentrate on local currency denominated tranches while regional banks' lending capacity has overall been reduced by current financial turmoil."

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## 8. CHAVEZ SAYS VENEZUELA ECONOMY TO FACE DIFFICULT YEARS

By Daniel Cancel

Dec. 7 (Bloomberg) -- Venezuelan President Hugo Chavez said his country's economy will face difficult years ahead as the world financial crisis expands and demand for oil, Venezuela's principal export, wanes.

Venezuela is prepared to confront the crisis and should restrict spending to strictly necessary items while saving as much as possible, Chavez said in comments on state television.

"The world is in crisis," he said. "It hasn't hit Venezuela yet, but we can't say that a crisis of this magnitude, depth and impact won't affect us. The economy will go through difficult moments in coming years without a doubt. But Venezuela has what it takes to navigate through the storm."

Venezuela, the biggest oil exporter in the Western Hemisphere, depends on oil for 90 percent of its export revenue and 50 percent of its government spending. Chavez has called on his government to follow an "austere" budget next year and to reduce spending.

The Venezuelan oil basket, a benchmark of prices for oil exports, dropped 12.9 percent last week to \$34.49 a barrel on Dec. 5, according to the Energy and Oil Ministry which publishes the basket price each week. The price for Venezuelan oil has plunged 73 percent from a record in July.

Venezuela's economy is slowing after years of growth. The economy expanded 4.6 percent in the third quarter from a year earlier, the lowest rate in five years as annual inflation accelerated to a five-year high of 36 percent in September.

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## 9. CHÁVEZ AGAIN SEEKS TO SCRAP TERM LIMITS

Venezuelan Leader Could Rule Until 2019

By Juan Forero

Washington Post Foreign Service  
Monday, December 8, 2008; A10

BOGOTA, Colombia, Dec. 7 -- All this month, Venezuelan President Hugo Chávez has explained in one speech after another how he would like nothing more than to leave office when his term ends in 2013. But the Venezuelan people are urging him to remain in the presidency, Chávez has said, and he will not disappoint.

"I am not the one planting this. It is the people who are planting this," Chávez said Wednesday before red-shirted supporters in the coastal city of Cumana. "I would prefer to leave in four years, for many reasons -- human and personal reasons. But in the end, at this stage in my life, I am conscious that I do not belong to myself."

Chávez says he belongs to the people of his oil-rich country. The National Assembly, a body with only a handful of government foes, is expected to support a measure next week that would trigger a referendum asking Venezuelans to approve a constitutional amendment scrapping term limits. If Chávez wins that

vote, to be held as early as February, the former army paratrooper could rule until at least 2019 -- 20 years after he first took office with a promise to dismantle Venezuela's old social and political order.

"Ten more years of the revolution will come," Chávez said Saturday to throngs outside the Miraflores presidential palace. "I will be here until God wills it."

The populist firebrand's renewed effort to remain in office a year after voters rejected a referendum that would have eliminated term limits underscores the challenge the administration of President-elect Barack Obama faces in Venezuela.

During a tumultuous decade in power, Chávez has survived a coup and an oil workers' strike. He took the initiative against opponents, debilitated foes and, in the process, took control of all government institutions. He has used Venezuela's formidable oil coffers to build an anti-Washington alliance with like-minded governments in Cuba, Bolivia and Nicaragua.

Chávez has also forged ties with Iran and assisted Marxist guerrillas in neighboring Colombia, American and Colombian officials say, while escalating verbal attacks on Venezuelan opposition figures and the country's private news media.

To reach his latest objective, Chávez could have taken the painstaking route of collecting the 2.5 million signatures required to activate a referendum. But the government has decided on a faster path, one opposition groups call undemocratic: a vote in the National Assembly, which only requires the approval of 30 percent of lawmakers.

Speed is crucial as the slide in oil prices makes life harder for Venezuelans, even for the working classes that form the base of Chávez's support. Chávez last week explained he wanted the matter settled by February, or March at the latest. "I do not want to spend all of 2009 in this debate," Chávez said. "We need to do this fast."

The president of the National Assembly, Cilia Flores, told state television last week that the National Electoral Council would have 30 days to organize a vote once lawmakers approve a referendum. The president is apparently not taking any chances.

He has named trusted associates to shepherd the proposal through the National Assembly, and then to win popular support on the streets. They are Jorge Rodríguez, a former vice president and the new mayor of Libertador district in the capital, Caracas, and Aristóbulo Istúriz, a former education minister.

The president's latest crusade comes at a tense time in the polarized country of 26 million.

Last month, opposition politicians made important advances in elections for governors and mayors. Though Chávez's United Socialist Party continues to rule most states and towns, the opposition won control of Caracas' city hall and economically vital states such as Carabobo and Tachira.

Despite conciliatory words from two leading opposition politicians who won offices in metropolitan Caracas, Chávez has called them "fascists" intent on dismantling popular social programs. The government has also warned that it could pull the broadcast license of Globovision, an opposition television station, for televising a speech by an anti-government candidate who declared victory before official results were released. In the National Assembly, Chávez allies have been holding hearings to outline corruption charges against a leading opposition figure, Manuel Rosales.

Now, opposition groups are gearing up for another bruising battle: fighting Chávez's plan to lift term limits. The president's foes argue that staging a referendum on the matter is unconstitutional because voters last December rejected a similar proposal. Their concern was echoed by Vicente Díaz, a member of the government electoral board, who last week raised questions about the legality of a new referendum.

In Caracas, the opposition has put up placards that read: "What is it about no that you do not understand?" It is unlikely, though, that opponents will be able to stop a referendum on legal grounds, since the Supreme Court, which is stacked with Chávez supporters, does not rule against government initiatives.

In a news conference Saturday, leading opposition figures acknowledged as much. "If the institutions do not function," a statement they issued said, "and they permit this reelection proposal, then we will confront it and defeat it with the votes of the majority of Venezuelans."

Chávez is characterizing the extension of his rule beyond 2013 as necessary to continue a socialist transformation of the country and blunt what he calls Washington's diabolical designs on Venezuela. In speech after speech, he has predicted an easy victory in the upcoming referendum.

"They are afraid, my heart tells me that," Chávez said of his foes last Wednesday. "This amendment will happen. And we will win by a huge majority in February."

Political analysts say Chávez needs to carry out a referendum quickly, before the continuing drop in oil prices batters an economy heavily dependent on crude exports to the United States. Venezuelan oil, tar-like and requiring special refining, is selling for less than \$35 a barrel.

In addition to economic hardships that include the highest inflation rate in Latin America, Venezuela has a homicide rate that tops that of neighboring Colombia, which has been plagued by a long internal conflict. The opposition exploited those problems in last month's election, winning in poor slums that had been bastions of support for Chávez.

Yon Goicoechea, who led a student movement against last year's referendum, said the opposition needs to begin marshaling voters to turn back Chávez's plan.

"We think it is profoundly unjust to have us vote over something we already decided," he said in comments published in the Caracas newspaper El Universal. "But because we did make a decision, and because we are confident in the people of Venezuela, we know we are going to win again."

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## 10. OIL'S FALL PINCHES LATIN NATIONS

By John Otis  
Houston Chronicle  
Dec. 6, 2008, 12:26AM

BOGOTÁ, COLOMBIA — During the five-year bonanza of rising oil prices, resource nationalism took hold across Latin America, and energy-producing countries boosted spending, raised taxes on foreign oil companies and salted away billions in petrodollars.

But with the onset of the global economic crisis and the collapse in oil prices, Venezuela, Mexico and other regional energy producers are feeling the squeeze.

If prices don't rebound soon, the countries will be forced to cut spending on popular programs or dig into their reserves. Governments also will probably see slowdowns or cancellations of energy projects ranging from explorations to biofuels plants.

"The old assumptions are out the window," said RoseAnne Franco, a Latin America analyst at PFC Energy in Washington. Lower prices "are forcing a very strong readjustment for all concerned."

Benchmark light, sweet crude has dropped to near \$40 a barrel from its record close above \$145 in July.

Venezuela, the world's seventh-largest exporter, saw the price of its oil — which sells for less than the benchmark crude because of its higher viscosity and sulfur content — drop to \$39 per barrel, its lowest level since May 2005. Venezuela uses oil revenue to fund much of its \$77 billion annual budget.

Venezuelan President Hugo Chavez has said the country, which has built up reserves of some \$76 billion, will practice "austerity" in the 2009 budget.

If Chavez decides to cut the budget, he likely will slash foreign aid to other countries in the region before cutting domestic spending programs.

Chavez, who wants to remain in office "as long as God wants and the people demand it," is trying to overturn a constitutional limit on presidential terms. His supporters are working on getting a referendum to the voters by February, and Chavez does not intend to alienate poor and working-class voters who are the spending programs' recipients.

After passing laws to take over privately managed energy projects, Venezuela and other Latin American countries are once again courting international oil companies.

In the past, Chavez has focused on deals with state energy companies in Russia, China and Iran. But recently his oil minister announced that 21 international companies were preparing bids to develop fields of heavy crude in the Orinoco belt in central Venezuela. Reforms in Mexico

Elsewhere, Mexico's Congress approved a long-awaited package of energy reforms last month to allow limited foreign investment in the state oil monopoly, Petróleos Mexicanos, or Pemex.

Yet some experts described the move as too little, too late for the Mexican government, which derives 35 percent of its total revenue from oil income. The new legislation, they said, will do little in the short term to boost oil production, which is rapidly declining.

Mexico's output has fallen from 3.4 million barrels per day in 2004 to the current 2.8 million barrels. Increased demand and declining production could turn Mexico into a net oil importer by 2015, according to Pemex estimates.

New enterprises will take years to come on line. Yet Mexico's expensive deep-water projects in the Gulf of Mexico now look less profitable for outside companies.

"When oil is at \$140 per barrel, there is a lot of expensive oil that's worth producing," said Michael Goldberg, a senior partner at the Houston office of Baker Botts, the international law firm whose clients include major oil companies. "At \$50, it is not. So projects that were being considered just six months ago are now on hold."

A recent report from the Eurasia Group, a global consulting firm, seemed even more bleak.

"President Felipe Calderon and Pemex bureaucrats all say the reform package will help the company undertake badly needed exploration projects and boost declining production," it said. "However, there is a strong argument that Mexico's energy reform will do little to help improve the company's condition in the near, medium or long term."

To cope with the twin plagues of falling production and prices, Mexico's Finance Ministry announced that it had hedged all of the country's oil exports for next year, a deal that will guarantee the country at least \$70 per barrel on an estimated 330 million barrels. Brazil's deep finds

In Brazil, Latin America's third-largest oil producer, state energy company Petrobras has announced a string of discoveries. But most are deep-water reserves far beneath the sea bottom and will require a massive infusion of capital to bring on line.

The credit crunch, however, has hurt Petrobras' ability to raise money and finance huge investments, said Erasto Almeida, who tracks the region for the Eurasia Group. And in a case of bad timing, Brazilian lawmakers are planning to consider an energy bill that would give the government more control over the industry, not less.

Brazil ranks as the world's second-largest producer of ethanol after the United States, and a leading exporter. But in Brazil, ethanol is no longer profitable when oil prices fall below \$40 per barrel, said Johanna Mendelson Forman, an expert on biofuels at the Center for Strategic and International Studies in Washington.

Colombia also has invested heavily in ethanol and biodiesel plants, but interest could diminish if oil prices continue to drop.

"The big question is: How will this stimulate or inhibit investment in ethanol in Colombia and Brazil?" Mendelson Forman said. "We could see a reduction, which is also happening in the United States." Flat prices predicted

How long will the low oil prices last? The U.S. Energy Information Administration has forecast that world prices will be relatively flat in 2009. The global economy's condition, it said, is expected to remain the most important factor driving world oil prices.

The Latin American energy producers have some wiggle room. Because oil prices rose to record heights this year and some countries based their spending on conservative revenue estimates, they may not face a severe shortfall for several months, some analysts said.

"This will allow them to resist for some time, and then it becomes a matter of how long the world economic crisis lasts," Almeida said. "If it lasts more than one or two years, then we will start seeing a serious impact."

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## 11. EU ENERGY CONSENSUS - TRENDING IN THE RIGHT DIRECTION

Posted by Jerome Paris  
The Oil Drum: Europe  
December 7, 2008 - 8:16pm

I was invited last Monday to a seminar organised by the French government as part of the presidency of the EU on the theme of energy security. A lot of heavy hitters speaking: former IEA boss Mandil chaired the whole process, current IEA boss Tanaka spoke, as did the CEOs of E.ON, Total or Dow Europe, various high level EU Commission members and EU ministers. Here are some notes of what I found interesting in the first part of the conference (I missed the second half, but part of it was a summary of the first part for ministers, and the other part was ministerial speeches).

No media was authorised at the meeting, so this is an exclusive summary, which the organisers in the French ministry of industry have kindly allowed me to post.

Tanaka spoke first, to provide a summary of the WEO: he called it "shocking but interesting" (his exact words) which I found notable (and a hint maybe of the internal conflicts that the IEA faced on the topic). He flagged the "serious investment issue" the world faces, as well as the risk of a serious supply crunch when demand comes back after the current crisis. He strongly supported the idea of a stimulus package focused on sustainable energy, calling a "Green New Deal" an excellent thing.

One insightful point he made is that with respect to security of supply, non-OECD countries matter more and more, and thus focusing only on ourselves (the rich countries) is not good enough. After mentioning the increased reliance on imports, and mentioning the importance of fighting climate change, he concluded by saying the the "era of cheap oil is over", and that we have to get used to expensive energy.

The Ruhrgas/E.On CEO said he welcomed the new focus on security of supply, and went on to talk about the importance of the new pipelines from Russia (Nordstream and Southstream). He underlined that Russia needs security of demand just like we need security of supply to make investments. He emphasised his company's massive investment in renewables, noted his support for nuclear, as well as the need to keep on using fossil fuels (he qualified coal by pushing CCS).

De Margerie, the Total CEO, had some hard-hitting words, saying that he was tired of the mindless alarmism he sees too much of, which is not focused on the real problems. So he blasted Nabucco once more (a pipeline without gas), told people to stop worrying about Ukraine, about terrorism in general - although he said that Somalia was a very real issue, or about the energy weapon - on the other hand, Hormuz was a real issue for him. He said that beyond the lack of investment, he was worried in the

medium term about the increasing scarcity of resources, about low prices making exporting countries just as difficult to deal with (because of internal problems) as high prices, and about a need for importers to talk to exporting countries and to actually listen to what they have to say ("even the Russians and the Saudi have legitimate preoccupations sometimes. . ."). He noted that it might be smart to remember that some exporters are also large consumers and thus do not behave in the same way (and he suggested that helping them use less energy might be a smart thing to do).

Two heads of TSOs (transmission system operators), that of France and Poland, talked about the need to strengthen the networks, and noted that the main obstacle was social (the absolute hostility of local populations to high voltage lines). The head of Dalkia (a utility focused on heat and industrial energy services, part of Veolia, the French group), noted how hard it would be to reach the EU's objectives, giving concrete examples from his business, under today's rules and regulations. He saw biomass as the main large scale route to reduce fossil fuel use, with housing efficiency having a large potential, but not at today's prices. The head of Dow chemicals just protested against rules that would make his production uncompetitive and push him out of Europe. A professor talked about Russia more specifically, in a generally non-confrontational way, noting that our attempts to reduce demand or to diversify sources are seen as a threat by Russia, which might be tempted to diversify its clients, that Ukraine is mostly a non-issue, but that the problem of whether Russia has enough gas to provide more to Europe will be a problem starting as soon as 2012 (old fields maturing, domestic demand growing, and new fields not yet online).

Mandil, summing up the first half of the day noted 5 points (which he was going to pass on to ministers in the afternoon session, which I missed):

1. Keynes is back, and a Green New Deal focused on the electricity grid seems like a good thing to everybody.
2. Energy efficiency is the first priority for all, followed by renewables, nukes, CCS, cogen and R&D.
3. The regulatory framework is not good enough yet for objectives to be met, and must be improved.
4. Nobody has asked for the European Commission to do less on the issue, quite the opposite: coordination is a key buzzword.
5. Let's not cry wolf too much - the real issue is medium term investment.

I managed to grab him at the end of the session (we've bumped into one another at several energy conferences, so he knows me), and suggest that he add the coming resource shortages in the medium term that were hinted at by several speakers (de Margerie, the guy on Russia, and Tanaka) - he told me once again that he did not believe it to be the case, and that it had not be said (it's just an investment shortage) so he would not talk about it.

Overall, a pretty interesting morning, with much less ideology than I have seen at earlier European energy conferences.

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## 12. CRISIS HAS CHINA LOOKING INWARD

By Alan Wheatley  
Reuters  
Monday, December 8, 2008

BEIJING: Who would have thought a few months ago that China might end up remembering 2008 not for the Beijing Olympics or the Sichuan earthquake but for the demise of the country's model of economic development?

"Might" is the operative word. China's attachment to investment, exports and heavy industry runs deep.

After all, these have been the drivers of the remarkable growth that China has enjoyed since it embarked on market reforms 30 years ago this month, lifting hundreds of millions of people out of poverty in the process.

But the closure of thousands of factories as export demand evaporates has dealt a serious blow to China's confidence. President Hu Jintao has gone so far as to say that turning the challenges posed by the credit crisis into opportunities would be a test of the Communist Party's capacity to govern.

China, in short, realizes it needs to stand on its own feet and rely less on exports.

So expectations were running high that a meeting on Monday of the top Chinese leaders to chart economic policy for 2009 would finally get serious about boosting domestic spending.

The task is daunting. Household consumption last year made up just 35.3 percent of China's gross domestic product, a record low for a major country in peacetime. In the 1980s, it was over 50 percent.

By comparison, household consumption last year made up 72 percent of U.S. GDP. If America spends too much for the sake of global economic balance, China has taken thrift to new extremes. That needs to change.

Ben Simpfendorfer, an economist with Royal Bank of Scotland in Hong Kong, cites the pending nationwide expansion of a successful pilot program offering a 13 percent tax break to rural buyers of electrical appliances as evidence that China is already looking to tap its own potential. He calls it a symbolic milestone.

"This is a slow burn story," he added. "It won't save the global economy from its current problems. But it may help to shape the global economy over the next decade."

Raising the income tax threshold and increasing housing subsidies and minimum income support are among ideas the strategy conference will examine to get people to spend more freely.

But, skeptics ask, if Beijing is so serious about increasing disposable incomes, why is the state budget for health care and education so puny? These are the two largest out-of-pocket expenses for most Chinese, yet only 1 percent of China's new 4 trillion yuan, or \$586 billion, stimulus plan is earmarked for the two sectors.

One of the rationalizations is that China has not had the bureaucracy in place to ensure extra money is not frittered away.

It's easy to pour concrete to build a clinic. It's tougher to train doctors and administer a medical insurance program across a sprawling, developing country.

But David Dollar, head of the World Bank office in Beijing, said the government had in fact been putting the institutional structures in place so that it could increase spending significantly and effectively. "It would be both good fiscal stimulus, and it would help with the whole social development agenda," he said.

That sounds like common sense, but some scholars wonder whether China has the political setup needed to switch from infrastructure to social spending.

Zhiwu Chen, a finance professor at Yale School of Management, says that returning money to the people - through lower taxes or spending on social programs - is not a priority in China because its leaders do not have to stand for election.

This explains not only why democracies like Brazil and India lag behind China in infrastructure but why China's economic stimulus package is concentrated on road and rail building.

"In a non-democracy, officials are held accountable to their superiors, not voters," Chen said in a syndicated column. "And for one's superiors, tangible projects are the easiest to recognize."

For 30 years, concentrating resources in the hands of the government through state ownership and taxes has served China well.

But the private consumption needed to power self-sustained growth is lacking. For that, Chen argues, China must boost incomes and increase people's sense of financial security.

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### 13. POWER CUT TO CONTINUE FOR 5 MORE YEARS IN NEPAL

KATHMANDU, Dec. 8 (Xinhua) -- On account of insufficient resources and inability to meet prevailing demand for electricity, load-shedding will continue in the country at least for five more years, the Nepal Electricity Authority (NEA) has said.

Water levels of as much as hydropower projects have declined due to snow freezing in their sources, Danda Pani Basyal, NEA public relation director was quoted by Monday's The Rising Nepal daily as saying.

"This has forced us to supply inadequate electricity to the ever expanding demand," he said.

Currently, the country produces 617 MW power. Besides this, there are some micro hydropower and solar electricity projects in rural areas. Despite this, the country needs at least 722 MW of electricity and the demand is on the rise.

The NEA last week decided to increase the weekly load shedding hours. The increase would be up to 45 hours from the present 35 hours in parts of the country.

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### 14. SENATE RETURNS TO AUTO BAILOUT TALKS

By Thomas Ferraro and John Crawley  
Mon Dec 8, 2008 5:45am EST

WASHINGTON (Reuters) - The U.S. Senate was due to reconvene on Monday as White House and Democratic congressional negotiators sought to draft legislation to bailout the U.S. auto industry and stem a deepening of the U.S. recession.

Even if they manage to finalize an agreement in principle to provide the "Big Three" automakers with at least \$15 billion in short-term loans, it was uncertain if it would become law.

Democrats have a majority in the 100-member Senate, which could begin consideration of legislation within days. But skeptical Republicans could kill such a measure with a procedural hurdle that would need 60 votes to clear.

Democratic Sen. Carl Levin of Michigan, where the U.S. auto industry is centered, said he was confident there would be a deal by Monday, but uncertain if there would be the votes.

"That's a much more complicated question," Levin told "Fox News Sunday."

Democratic negotiators modified their draft proposal on Sunday, a congressional aide said, and planned to get it to the White House for consideration.

In addition to reorganizing automakers and protecting taxpayer investment, possible conditions include creating a government "car czar" to oversee the bailout and additional concessions by the United Auto Workers (UAW) union as well as the corporate leadership.

The New York Times reported on Sunday that Democrats were considering having the "car czar" lead an oversight board made up of five cabinet secretaries and the head of the Environmental Protection Agency.

Negotiators are trying to forge a bill to provide General Motors Corp, Chrysler LLC and Ford Motor Co with at least \$15 billion in short-term loans, although analysts say the auto industry may eventually need closer to \$125 billion to survive. The three firms had sought \$34 billion from Congress.

Many from President George W. Bush's Republican party are reluctant to approve another rescue plan after a \$700 billion package they passed for Wall Street in October triggered a voter backlash in the November 4 congressional elections.

If the deal passes the Senate, it would go to the House of Representatives for anticipated concurrence.

The measure would then be sent to President George W. Bush as one of the last ones he signs into law before Democrat Barack Obama succeeds him as president on January 20.

#### SAVE AUTO INDUSTRY, SAYS OBAMA

"I have said repeatedly that to allow the auto industry to collapse precisely at a time when we are seeing record joblessness is unacceptable," Obama said in Chicago on Sunday.

Obama said the heads of the automakers "should go" if they proved unwilling to make the tough choices needed to retool their operations to produce more fuel-efficient vehicles.

Critics of the rescue plan have said any loans would be a waste of money unless automakers were able to cut costs and better compete with more fuel-efficient, foreign-made cars.

Obama said lawmakers had been right in insisting on attaching conditions to the bailout money.

"I think that Congress is doing the exact right thing by asking for a conditions-based assistance package that holds the auto industry's feet to the fire, gives them some short-term assistance, but also insists that that assistance leads to some very difficult choices involving all the stakeholders in the auto industry," he said.

After months of stalled efforts to help the companies, the Bush administration and congressional Democrats made a breakthrough on Friday on how to pay for the bailout, agreeing the money will come from a loan program approved in September to help automakers make more fuel-efficient vehicles.

On the same day, the government reported that employers slashed more than 533,000 jobs in November, the highest monthly decline in 34 years. Lawmakers fear hundreds of thousands more would lose their jobs if any of the major automakers failed.

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#### 15. BIG THREE BAIL-OUT COULD HIT GREEN CARS

By Richard Waters in San Francisco  
Financial Times  
December 7 2008 19:01

The nascent US electric car industry could be put at risk because of the short-term focus on bailing out the Big Three carmakers, according to two of the leading Silicon Valley entrepreneurs involved in the field.

The diversion of government money and policy attention to solve the Detroit crisis threatens to stifle an industry with important long-term strategic value at a vulnerable point in its development, they added.

"It's kind of silly to say that the Big Three are going bankrupt making the gas guzzlers they've always made, and then give the money to them," said Elon Musk, founder of Tesla Motors, which began low-volume production of an electric sports car this year.

He added that “a substantial capital injection is needed in the electric vehicle industry” for it to reach significant scale.

Shai Agassi, founder of Better Place, which aims to build the recharging infrastructure to support electric vehicles, added that significant government support and a radical overhaul of incentives were needed to boost both supply and demand for electric vehicles. Otherwise, “none of this will happen in the US”, he said.

The alarm has been caused by the potential use of \$25bn that had been earmarked for the development of advanced technology vehicles to help save the Big Three. “The political reality is, in order to get this bail-out done, funds need to be diverted,” said Rod Lache, lead global automotive analyst at Deutsche Bank Securities. Despite this, he said, the incoming Obama administration was likely to make the long-term support of environmentally friendly technologies, including electric cars, an important part of its agenda.

Tesla Motors has applied for \$400m of the money set aside for advanced vehicles. The company has had to put its expansion plans on ice due to the financial crisis and will not be able to move ahead to large-scale production without government money in the current environment, Mr Musk said, though he claimed the company could survive just by making its sports cars.

Mr Agassi, a former head of technology at software company SAP, and Mr Musk, whose other ventures have included PayPal and the SpaceX private rocket programme, have become the leaders of a new movement in the US trying to bring outside thinking to the troubled auto industry.

Both personify the ambitious business style of Silicon Valley, using new technology and business model innovation to shake up an established industry.

Without government money and a broader policy overhaul, though, insiders warn that a US electric car industry will falter. “It may happen in other markets before it happens in the US,” said Mr Lache.

A bail-out of the Big Three, without much greater support for electric vehicles, would not solve the industry’s longer-term problems, said Mr Musk.

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## 16. SHORT SUPPLY: AMERICAN-MADE ELECTRIC CAR BATTERIES

The key component for America’s automotive rebirth isn’t even made here.

By Bill Moore  
EV World

As Big 3 CEO’s, the head of the UAW, and various invited economic experts appeared before Congress this week, one key witness was missing, which is ironic, because the success or failure of a revitalized American auto industry pivots around its presence.

That missing witness is an American advanced automotive battery manufacturing industry.

With all the talk on Capitol Hill this week about Big 3’s plans to introduce advanced, plug-in electric cars, with the CEO’s dramatically arriving to testify in conventional hybrids and advanced prototype plug-in models, little if any attention was paid to the fact that America has next to no advanced automotive lithium ion battery production capacity. With the exception of a currently shrinking handful of US-based firms, virtually all advanced nickel metal hydride (NiMH) and lithium ion (Li-ion) production is done overseas, mainly in China, Japan and Korea.

Two Japanese companies: Panasonic and Sanyo produce nearly all of the batteries found in today’s hybrids, including those manufactured by Toyota, Lexus, Honda, Nissan and Ford. And Panasonic, whose hybrid battery production JV is now largely owned by Toyota, is seeking to acquire Sanyo, which would give it nearly monopolistic control of all NiMH battery production for automotive applications.

US-based Cobasys, originally founded as joint-venture between Troy, Michigan-based ECD and General Motors to produce NiMH batteries for the now extinct EV1 electric car, produces nickel-based batteries for the troubled giant's hybrids, but its fate is uncertain. Between legal spats with Daimler and product quality issues with GM, as well as management problems, the joint venture with Chevron-Texaco remains, at best, a small player in a rapidly shifting market. Two other NiMH plays, Colorado-based NiLar and ElectroEnergy, which also produces lithium-based cells, have run into either technical obstacles or financial ones.

On the lithium ion battery front, the picture is much the same. The literally thousands of finger-sized cells that power the Tesla Roadster come from Asia. The same goes for the battery cells the Chevy Volt, the extended range electric car on which General Motors is pinning its future.

The battery "pack" in the Volt consists of a series of battery modules, each similar to the starter battery on a small car or motorcycle. Inside these modules are individual "cells", each rated at 2-3 volts. These are connected together to make a module, which is connected to all the other modules to make a single 16 kilowatt hour battery pack, giving the car a range of 40 miles on electric power only.

General Motors contracted with two firms to develop the battery pack for the Volt: Michigan-based Compact Power, Inc. (CPI) and Germany's Continental AG (Conti). CPI gets its cells from its parent, LG Chem, the giant Korean conglomerate. Conti partnered with Massachusetts-based A123 Technologies for their cells, but those cells are manufactured in China.

So the lithium battery technology inside the Volt "mule" -- a converted Chevy Cruise -- in which GM CEO Rick Wagner arrived on Capitol Hill for a second round of Congressional hearings, ultimately came from Asian manufacturers, not American ones.

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So the lithium battery technology inside the Volt "mule" -- a converted Chevy Cruise -- in which GM CEO Rick Wagner arrived on Capitol Hill for a second round of Congressional hearings, ultimately came from Asian manufacturers, not American ones.

There are just a tiny handful of North American lithium cell manufacturers that are actively engaged in producing cells for automotive applications.

Milwaukee-based Johnson Controls and French-based Saft have created a joint-venture -- JSC -- to produce advanced automotive batteries, but at the moment production is in France with product consigned for use in BMW and Mercedes hybrids in Europe.

ElectroEnergy, which originally hoped to manufacture a bi-polar NiMH battery, decided to acquire an abandoned lithium ion cell plant in Gainesville, Florida. Originally built by Energizer Holdings in the early 1990s, the plant closed without producing a single 18650 cell -- the kind that powers most laptop computers and digital cameras -- for commercial sale when cheaper, better Asian cells began to flood the market. It sat idle for a decade until ElectroEnergy acquired it, hoping to tap into the burgeoning market for lithium batteries. During the recent Electric Drive Transportation Association conference in Washington, D.C., the company president, Michael Reed announced that having run out of operating cash and potential investors, he was within days of going out of business, this despite having some \$7 million dollars in orders.

Another US-based, advanced battery manufacturer, Altair Nanotechnologies, produced a small number of its advanced lithium ion batteries -- the cells themselves originally sourced from a Chinese partner -- for Phoenix Motorcars, which was using them for its electric truck conversion project. While initially showing very promising results in terms of fast charge capability and battery longevity, the company's automotive battery venture has yet to emerge from the custom prototype pack stage. Phoenix has had to turn to other potential suppliers.

One of those suppliers is Toronto-based Electrovaya, whose Superpolymertm chemistry was initially developed for laptop computers. Efforts by the State of New York to woo the company into a building a plant in its economically depressed Upstate region have made little headway as Electrovaya increasingly turns its attention to India and Europe. It is collaborating with Indian industrial giant Tata and a Norwegian company to build an all-electric car in Scandinavia. It is also studying building a battery plant in India, the home of its co-founder, Dr. Sankar DasGupta.

The advanced lithium ion batteries in the Segway scooter -- and now the Brammo electric motorcycle -- come from Austin, Texas-based Valence. However, actual cell production is, again, in China.

The one bright spot at the moment in all-American advanced automotive battery manufacturing is EnerDel and its Ener1 battery production unit. The Indianapolis-based manufacturer is developing packs to power the Th!nk City electric car in Norway, which is slated for a US introduction sometime around 2010. According to EnerDel Chairman Charles Gassenheimer, the company is also in discussions with at least two other OEMs. The firm's Indianapolis facilities produce both lithium ion cells and finished battery packs; and it recently acquired the third largest lithium cell manufacturer in Korea, obviously anticipating growth.

### The Chicken and Egg Again

The most frequently voiced concern to EV World among both established and up-and-coming electric vehicle manufacturers and converters is the dearth of available advanced batteries. They just aren't to be had.

A large part of the problem is a lack of production capacity -- wildly fluctuating resource costs don't help either. From the supply of lithium salts in Chile and China, to over-extended assembly lines, the lithium battery industry, which only came into being just over a decade ago, is structured to produce cells and finished batteries for the portable electronics market, not the automotive market. Advanced automotive battery manufacturers are cranking out all the units they have the physical capacity -- and financial wherewithal -- to produce. Toyota sales of Priuses slipped through most of 2008, not because of a lack of consumer interest, but largely because of a shortage of battery packs. The story is the same at Ford with its Escape and Marina Hybrids. New York City's plan to shift all of its cabs to hybrids has been stymied, in part, because cab owners argued they couldn't buy the cars.

In the classic chicken-and-egg conundrum, lithium salt producers and battery manufacturers won't build additional capacity unless they have firm orders they can take to the bank, and even then -- as ElectroEnergy's Michael Reed has learned -- that isn't always a guarantee. Gambling with the future of one's company, be it in Santiago or Indianapolis, given the uncertainty of the auto industry worldwide, militates against any decisions to expand capacity, at least until the present fog of fear starts to dissipate. And no one is hazarding a guess when that might occur.

This has led to suggestions that local, state and federal agencies use their not-insignificant financial resources to place large, hard orders for advanced electric-drive vehicles, helping stimulate demand. U.S. President-elect Obama has pledged, where security allows, to shift The White House fleet of vehicles to plug-ins shortly after taking office next year. The U.S. Army announced it is looking to acquire electric vehicles.

All these are positive steps, but until investors and banks are willing to underwrite the growth of U.S.-based battery production capacity, encouraged by federal policy, the lion's share of plug-in vehicle battery production will remain offshore. While it can be argued that \$50 billion in foreign battery imports is better than \$500 billion in foreign oil imports, the nurturing of an America advanced battery production infrastructure seems critically important to the economic security of the nation.

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## 17. RUSSIAN OIL OUTPUT TO FALL AFTER 2020: NATIONAL ENERGY MINISTRY

Moscow (Platts)—8 Dec 2008

Russia's energy ministry believes that the country's oil production will stabilize at 535 million mt/year (10.7 million barrel/day) by 2020, after which it will start falling, a ministry's official said Monday.

Under the basic scenario of the draft energy strategy until 2030, the country's oil production will reach 500 million mt/year in 2010, 530 million mt/year in 2015, 535 million mt/year in between 2020 and 2025, and 530 million in 2030, said Vitaly Bushuyev, the general director of the ministry's institute of energy strategy.

"We need to be prepared for [the decline in output]," Bushuyev told an energy forum in Moscow, adding that international oil prices were likely to fall after 2012 to "the level of minimum profitability of the oil business."

"The significance of the oil business in the world will start reducing after 2015 to 2020 as the world economy will switch to innovative paths of development," he said.

The strategy also envisages crude oil exports to the countries outside the Commonwealth of Independent States--which comprises 12 states of former Soviet Republics--to be up to 214 million/mt in 2010, 229 million mt/year in 2015, 225 million mt/year in 2020, 221 million mt/year in 2025, and 212 million mt/year in 2030.

The ministry expects the Russian government to approve the strategy in the first quarter of the next year, but the document is unlikely to come in force before the macro-economic parameters stabilize, Bushuyev said.

The ministry will submit the draft document--which is not binding but indicative for the oil industry--to the government by the end of the year, he added.

#### GAS OUTPUT SET TO GROW

In the gas sector, the strategy forecasts gas output to increase to 701 billion cubic meters/year in 2010, 800 Bcm/year in 2015, 880 Bcm/year in 2020, 910 Bcm/year in 2025, and 935 Bcm/year in 2030.

Gas exports outside the CIS are expected at up to 181 Bcm/year in 2010, 237 Bcm/year in 2015, 279 Bcm/year in 2020, and to stabilize at 310 Bcm/year from 2025 to 2030, Bushuyev said.

The ministry expects total investments in Russia's energy sector at between 2006 and 2030 at \$1.9 trillion, he said.

The ministry's estimates for the investments are in line with that by the International Energy Agency.

Fatih Birol, chief economist of the IEA, said at the same event the agency expected Russia needs \$1.7 trillion in investments between 2007 and 2030 or roughly \$70 billion/year.

Of the total, \$30 billion should be invested in the gas sector, Birol said.

He also said that Gazprom's investment program of \$33 billion for next year is "very respectable figure" and not very much affected by the ongoing financial crisis.

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#### 18. SHTOKMAN CO SAYS LOANS KEY FOR START-UP

Mon Dec 8, 2008 4:44am EST

MOSCOW, Dec 8 (Reuters) - Availability of credit resources will determine the start-up date of one of the world's biggest gas project, Shtokman, the head of the Shtokman Development Company said on Monday.

"Liquidity and the possibility of attracting credit resources is a very important issue. I have to say this is one of the most serious issues, which will determine the beginning of the project development start," Yuri Komarov told reporters adding he hoped to raise the first funds in 2009.

Komarov is heading the Shtokman Development Co, which combines Gazprom (GAZP.MM: Quote, Profile, Research, Stock Buzz), Total (TOTF.PA: Quote, Profile, Research, Stock Buzz) and StatoilHydro (STL.OL: Quote, Profile, Research, Stock Buzz). The group needs \$15-\$20 billion to start the first phase, planned for 2013-2014.

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#### 19. START MAKING SENSE

America must end its denial about gas taxes.

Washington Post Editorial

Monday, December 8, 2008; A18

THERE IS a certain unreal quality to current debate over the state of the U.S. economy, national security and the environment. As Detroit's Big Three automakers approach bankruptcy, dangerous oil-exporting states threaten international stability and climate change continues unchecked, Congress and the incoming Obama administration ponder costly and complex proposals to address these related crises. Under consideration are tens of billions of dollars in loans to the car companies; sanctions and diplomacy targeted at Iran, Russia and others; and a cap-and-trade system for carbon emissions. Each of these may have its place. What's striking, though, is that the only idea that seems to be off the table is the one that

would address all three concerns directly and efficiently: higher gas taxes. This step would stimulate the market for new fuel-efficient cars; defund mischief-making petro-states; and cut carbon emissions. Not only that, it would reduce traffic, curb urban sprawl and, by giving drivers an incentive to drive more slowly, improve highway safety.

America's state of denial about fuel taxes is not new. But the time has come for it to end. The recent plunge in oil prices has created a golden opportunity. The price of a gallon of regular gasoline, which peaked at over \$4 last summer, is now about \$1.75. This means that today's drivers are enjoying the equivalent of 1980 prices, according to the Energy Information Administration. Meanwhile, the average per-gallon tax on gasoline is about 40 cents, including state levies. The federal portion of that has held steady at 18.4 cents since 1993; thus, in real terms, consumers have gotten a significant gas tax cut over the past 15 years. This tax should have been indexed to inflation long ago.

Europe's motorists pay far higher gas taxes than American drivers do, a principal reason that its manufacturers (like Japan's) are practiced experts at profitably building fuel-efficient vehicles -- and that the average fuel efficiency of new cars on European roads in 2006 was 38 miles per gallon. In contrast, newly enacted CAFE fuel-efficiency rules would require U.S. cars to get 35 miles per gallon by 2020. The Congressional Budget Office estimated in 2004 that raising the gas tax by 46 cents per gallon would cut fuel consumption more quickly and cheaply than CAFE.

Congress should enact a steep, inflation-indexed hike in gas taxes, one big enough to alter consumer incentives and habits permanently. This would take back some of the de facto economic stimulus consumers have received from the recent drop in gas prices, and it would be a hard sell politically. But surely voters can understand that, even if Congress were to triple the tax to 55.2 cents, gas would still be cheaper, in real terms, than it was in 2005. The increase could be rebated through the income tax system.

Whenever anyone mentions the gas tax, politicians are quick to warn their constituents about the costs; rarely do they mention the benefits. A higher gas tax would buy valuable public goods: national security; a cleaner environment; and safer, less congested streets. No matter what, Americans will have to pay for all of that. Why not do it the simple, straightforward way?

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## 20. SHELL CONSORTIUM TO PULL OUT OF UK WIND PROJECT

Sun Dec 7, 2008 2:45pm GMT

LONDON, Dec 7 (Reuters) - British oil major Royal Dutch Shell Plc confirmed on Sunday that the company and its partners have withdrawn from a major UK wind energy project.

The consortium of Shell, Scottish Power (SPW.PZ: Quote, Profile, Research) and Denmark's Dong Energy have abandoned the Cirrus Array project off the Northwest coast after denying a month ago that it had exited the project.

"The consortium has pulled out of the project," a spokesman told Reuters.

The project had been blighted by concerns from the Ministry of Defence over radar interference from turbines, said the Sunday Times.

"We tried hard to find solutions to solve the problems with the military interest," the Shell spokesman said.

Shell will have just one small wind project in the UK after abandoning Cirrus and will focus its attentions on wind energy projects in North America, the spokesman added.

BP has already said its future wind investments would be focused on the U.S. rather than the UK or Europe. The consortium cancelled the 800 million pound project after five years and millions of pounds of investment, said the report. (Reporting by Lorraine Turner, editing by Will Waterman)

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## 21. THINK TANK: A HIGH ENERGY SOLUTION

Cliff-top reservoirs could meet all of our power needs

Igor Shvets  
The Sunday Times

Ireland has to generate more than 95% of its energy from imported fossil fuels. This arises from our geographical and geological position as a rocky outcrop in the Atlantic Ocean, where fossils fuels could not accumulate to any great extent. But our location is a great asset in terms of power generation. Along with Scotland, Ireland is among the most favourable locations in Europe for wind-power generation.

It is estimated that we use about 24 billion kilowatts (kwh) of energy every year. So if you covered four regions of 12 square kilometres with wind turbines of a cumulative capacity of 12 megawatts (mw) per square kilometre, operating at 40% efficiency, you could provide all of Ireland's electricity requirements.

This could be an attractive proposition for farmers in the west whose income base is under stress — they could earn additional income by allowing wind turbines to be located on their land. They could still farm the land with the turbines installed. Farmers in the west often think that their main asset is their land. In fact, it's the wind that blows over it.

The main drawback with wind energy is its unreliable nature. In the absence of large energy-storage devices, wind power is just too intermittent to be considered a viable option for all our energy needs. Unfortunately, solar power falls into the same category — Ireland is just too far north.

However, the west coast is one of the best locations on the planet for wave power generation. The technology does not yet exist to harness such energy, partly because of the size of the power generators required to control wave energy, and problems associated with locating large generators in the right areas. The safest locations for generators are in sheltered harbours where they can be effectively anchored, but this defeats the purpose because harbours are areas of lesser wave energy.

Power-generating technologies must be cost effective and economically viable for the consumer. "Clean" coal-, gas- and oil-fired power plants and large wind farms can all produce energy for €0.08-0.15 per kwh. Solar energy can realistically be generated for €0.40-€1 per kwh, depending on location. But there are no figures for wave-generated energy, perhaps because no generating stations are operational at the moment.

Whatever energy-generating source we use has to be able to deal with the massive fluctuation in demand during the day. There are peaks between 4pm and 9pm but overnight demand is relatively low.

Ireland has many high cliff areas, so my proposal would be to build vast reservoirs on top of these cliffs and use wind power to pump salt water to them from the ocean. These reservoirs can be thought of as energy-storage areas.

The principle is simple: during times of high-wind activity, turbines would provide the energy to pump the sea water from the ocean, thus filling the reservoirs. In times of peak-energy demand, the reservoirs could be emptied.

The sea water, which is heavier than fresh water, would travel down the connecting pipes, through turbines, thus generating energy.

If water was pumped to a height of 250 metres above sea level and stored in a 2km x 2km, 20 metre-deep reservoir, it could supply all of Ireland's energy requirements. We can realistically break this down into 10 reservoirs, each measuring 700 by 700 metres and 20 metres deep — we have identified more than 20 possible locations for such reservoirs.

How realistic in purely economic terms is such a project? Well, Ireland requires 2,700 mws of power and in Bath County, Virginia, there is a 2,100 mw pumped/ storage system which cost \$1.7 billion (€1.3 billion)

to build. We probably do not need to build our reservoirs from scratch because of the unique Irish landscape. This would greatly reduce the construction costs.

The proposal could even be instrumental in helping Ireland out of recession. Consider the impact the Hoover Dam had on the American economy in the 1930s. Some 21,000 people worked on the project and today it is visited by 7m tourists a year. Building reservoirs would give much-needed employment to the construction industry and the resulting structures could add to tourism numbers in the west of Ireland.

Once we have demonstrated that we can achieve energy independence, it should be possible to turn our attention to developing Ireland as a net exporter of energy.

Professor Igor Shvets is chair of applied physics at Trinity College Dublin. This is an edited version of a lecture he delivered last week

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