

Between yearend 2001 & 2009 the US National Debt doubled (i.e. grew at a 9% compound annual rate). Since then it has grown another 42% (i.e. at a similar rate). Without wanting to give undue credit, but in all fairness, to Obama, his detractors overlook the fact that Bush 43 ran up the debt when the US economy was performing well, while Obama's performance, national debt growth-wise, came first amidst an economic/financial mess Bush bequeathed him.

The S&P 500 ended the year up 30% & an all-time high, 173% above the 2009 12-year low. But this looks like a manipulated number. For after the futures market had started to weaken at 1551 hrs on December 31st, the number of contracts traded in the next to last minute of the trading day soared to a level 20-40x what it had been all day, thereby ensuring it would indeed end the year at a record high (some of which gains were lost in early trading on January 2nd).

While America's middle class is 'struggling', it's booming elsewhere : the OECD expects that globally it will grow to 5BN by 2030 (> *half the population*) from 2BN today (< *one-third*). This will have major macro-economic implications in three 'must have' (not 'should have' or 'could have') areas : food, oil & gas, & water, *which should be key foci for long-term investors*.

A disconnect has developed between US corporate profits & job growth. Once companies hired more people when they prospered. But now corporate profits as a share of GDP are at a record high, & way above their 'normal' range¹ but job growth is lacklustre. The CW believes this due to their shipping jobs overseas & using more robots; there are other, possibly more important factors in play, incl. squeezing more work out of workers & companies generating more of their profits from their overseas operations.

The US labour participation rate hit an all-time high of 67.3 in 2000. Over the next seven years it declined slowly to 66.5. But since 2007 it speeded up & it now stands at 63.9, a 34-year low. One market observer says this has accounted for 95% of the recent years' decline in the unemployment rate² - *if so, its much-vaunted decline is a mirage at best, & a scam at worst. Coupling this with vacuous official inflation rates that do not reflect the hoi polloi's experience makes one wonder as to the quality & real world relevance of policy makers' decisions.*

As of January 1st 1.3MM Americans lost their Extended Unemployment Benefits averaging US\$1,166 per month &, unless Congress acts to extend them, their number could rise four-fold by the end of this year. But some Republicans, like Kentucky Sen. Rand Paul, believe extending them will be a "disservice" by making people less inclined to look for work in the short run, & longer term less employable. While they point to the rate having fallen twice as fast in North Carolina twice as fast there as the national rate after it cut back its unemployment benefits program, they overlook the fact this too was due to a significant drop in the participation rate.

Those looking for straws in the wind as to where the US stock market might be headed in the New Year may take note of NYSE margin debt now being at a level only seen twice before, most recently in 2007. And, while the average stock market pattern since 1950 has been for it to rise until May, be flat for six months, & then rise again late in the year, in mid-term election years it has tended to rise until April, then **decline** until after the election, after which it too resumed an upward path until year end - *so beware of the Ides of March?*

¹ Corporate profits now account for roughly 11% of GDP, 70% above its historical "norm".

² As noted before, the BLS (Bureau of Labor Statistics) uses the number of people with a job plus that of those **actively** looking for one to determine the UE rate.

In a lengthy article in The New Yorker entitled “Our Broken Constitution”. Jeffrey Toobin makes an interesting point, namely that, prior to losing control of the House & enough seats in the Senate to prevent filibusters in the 2010 mid-term elections, Obama had actually had a quite commendable record, pushing through healthcare-, & financial-, reform, a bailout of the auto industry, repeal of the military’s “don’t ask, don’t tell” policy, & the ratification of an arms-control treaty with Russia, and getting his nomination of two Supreme Court Justices confirmed.

In a telephone interview with CBC News Yaron Brooks, President & Executive Director of the Ayn Rand Institute rejected the idea that Christmas had become too commercialized for “consumerism ... is exactly what Christmas is all about” - *Ayn Rand promoted “objectivism”, which deems altruism & self sacrifice immoral since it means giving something up & not getting something of at least equal value in return (Wisconsin Rep. Paul Ryan, the Republican Party’s budget guru in the House, & a possible 2016 Presidential hopeful, is an Ayn Rand aficionado).*

According to the National Center for Homeless Education (funded by the Department of Education), in the academic year 2011/12 there were 1.2MM homeless students in the US, up 10% YoY & 72% since the onset of the Great Recession. And according to Andrea Elliott’s NYT article Invisible Child there are 22,000 in New York City, the most since the Great Depression (*when the city’s population was one-tenth smaller*), and nearly half of all New Yorkers live near, or below, the poverty line (denouncing income inequality was a major factor in Bill de Blasio’s successful mayoral campaign). With rents increasing & wages stagnating, there are now over a quarter of a million people on New York City’s waiting lists for public housing. Nation-wide one in five children are now said to be living in poverty, the highest ratio in any developed country other than Romania (which is 60th in the World Bank’s per capita GDP league table, vs the US’ 7th) - *‘homeless’ is not necessarily the same as ‘living on the street’; thus the central figure in Elliott’s article is an 11 year-old girl who lives with her father, mother & half a dozen siblings in one (large) room in a dilapidated city-owned building. The quarter million people on waiting lists constitute 6% of the city’s population. And the social scientists’ definition of the ‘poverty line’ often seems contrived. Be that as it may, the homeless cum living below the poverty line situation (however defined) does seem inappropriate given the level of the US per capita GDP.*

“Big Bertha” is a five story ‘mole’ digging a 1.7 mile traffic tunnel 60 feet beneath downtown Seattle. In early December it encountered some object that halted it in its tracks and left the Washington State Transportation Department at a loss as to its nature & how to deal with it.

In May 2012 Ottawa closed a 24-hour maritime rescue sub-centre in St. John’s, Newfoundland that handled 500 search & rescue missions a year, one-third of them distress calls, from an area covering thousands of kilometres of North Atlantic coastline. Its recent decision to rescind an earlier one to close a similar facility in Quebec City has infuriated the Newfoundland government whose Intergovernmental Affairs Minister said reopening the St. John’s facility is a safety issue & “The geographic realities alone should dictate that the centre should still be in place in St. John’s” - *the bad news for the Conservatives is that they’re polling fourth in Québec but the good news that Québec’s share of Commons seats is about to decline from 24.35% to 23.07%.*

The latest victim of the Harper government’s ideology-driven obsession with balancing the Budget³, is the Department of Fisheries & Oceans. It must cut \$100MM (i.e. about 6%) from its budget. This will affect the Coast Guard’s ability to stop illegal fishing & the Department’s work

³ In the year ended March 31st, 2014 it is expected to have been reduced by well **over** 50% in four years to a level well **below** 1% of GDP.

with respect to conservation, endangered species & industrial water pollution (*this comes on top of an earlier cut in the Environment Ministry's oversight over industrial development*) – its budget accounts for < 1% of total federal spending & the priority in budget cutting ought to be on eliminating some of the layers in the hierarchy who keep each other busy, rather than on cutting front line services. Be that as it may, this decision appears driven by the government's enmity towards science and another outward token of Ottawa priority for self-, over public- service.

Michael Chong is the MP for the Ontario constituency of Wellington-Halton Hills, Northwest of Toronto. On December 3rd he introduced a Private Member's Bill, entitled The Reform Act 2013 "to strengthen Canada's democratic institutions by restoring the role of elected Members of Parliament". He proposes to give them the power to remove a leader & to strip party leaders of the power to veto the nomination of a candidate chosen by a local party constituency organization & to eject an MP from his/her party's caucus - *Chong is one of numerous MPs in all corners of the House who feel party discipline & the centralizing of power in leaders' offices has gone way too far, reducing MPs to little more than trained seals who are told when, where & how to bark. It's hard to know how the Prime Minister will deal with this challenge to his authority. For the concept has gotten a lot of support in many quarters & Chong, twice re-elected since 2004 with increased majorities in the, for Harper critical 905 telephone area code part of the Greater Toronto region, cannot be ignored, if only because showed himself to be 'his own man' when after Harper made him a junior minister following the 2006 election he in effect told him to 'stuff his job' less than a year later when he felt the Prime Minister had gone too far in recognizing the status of Québec as 'a nation within the Canadian Confederation'.*

The Head of Canada Post, in defending the decision (*apparently with the encouragement-, if not behest-, of the government*) to hike postage rates 35% to 85¢ (*in the US US Post's move to do so by 6.5% to 49¢ prompted "outrage"*) & eliminate door-to-door delivery (*not quite as drastic a move as it may seem since two-third of Canadian households are already not getting it*) had the colossal gall to tell a House of Commons the latter will benefit seniors who tell him they "want more exercise" - *many of those he didn't 'talk to' may not agree, simply because, while still living in their own home (which should be encouraged for fiscal reasons), they are 'mobility-challenged', especially in winter when it can be cold & the sidewalks icy.*

An Environment Canada researcher, Jane Kirk, told a meeting of the Society of Environmental Toxicology and Chemistry in Nashville last November that 19,000 sq. kms. in the oilsands region of Northeastern Alberta are "currently impacted by airborne Hg (mercury) emissions originating from oilsands developments" to a level to 16x the region's "background level" (albeit still well the level in many parts of North America, incl. Southern Ontario & Québec). Mercury is a serious public health danger & *the airborne variety doubly so*, and Ottawa signed an international treaty last fall committing itself to reduce its release into the environment – *it's hard to understand why the Prime Minister let her go public with this especially since this is likely another nail in the coffin of TransCanada's cross border section of its Keystone XL pipeline.*

Québec's 'language police' has a mandate to ensure English doesn't overwhelm French in the province's daily life (*even though 94% of the province's population is said to be to various degrees functional in the latter language*). It set another low water mark in December when, after a worker in a psychiatric hospital complained two Haitian co-workers, despite being fluent in French, occasionally conversed in the work place in their native language, Creole, it warned the hospital it must prevent this from happening again or risk a fine of up to \$20,000.

The effect of the double discounting of the Western Canadian Select crude price from world oil prices can be seen in the oilsands' production-, & royalty payment data; for while its output

grew 19% from 2010 to 2012, its royalty revenue **declined** 11%. The Alberta government likes to blame this, & the Province's rapid population growth, for its fiscal problems; but while both certainly are factors, it's not the whole story; for it's approach to fiscal matters is like that of the grasshopper in Aesop's fable to Norway's ant.

Beijing was unnerved by North Korea's Kim Yong-un's execution of his uncle, Jam Song-thaek; for he had been its conduit to the Pyongyang regime & his demise 'unplugged the phone'. And it reacted badly to Prime Minister Abe's visit on December 26th, the first anniversary of his second term as Prime Minister^{4 5}, to the (in)famous Yasukuni shrine to Japan's 2½MM WW II dead (& executed war criminals) which purportedly was to "pay respect to the war dead ... (*and*) report to the spirits about the progress made over the past year". Part of this was due to his once having expressed pride in carrying the DNA of his grandfather Nobushuke Kishi,, who used to brag he had been instrumental, *prior to WW II*, in the creation of Japan's vassal state Manchuria in Northeastern China (where during the war the Japanese perpetrated some truly nasty things on Chinese citizens). So despite Abe saying afterwards he "had no intention to neglect the feelings of the people of China and South Korea" & had merely gone there "to renew my commitment to peace so that we will never cause anyone to suffer in war", China's Ambassador in Tokyo called on Japan's Foreign Minister to lodge a protest & Beijing issued a statement calling Abe's visit "an effort to glorify the Japanese militaristic history of external invasion and colonial rule" And of course, Abe pushing for Japan's remilitarization isn't helping matters although it can be argued that this is, in part at least, in response to China's aggressive posture towards the other countries in the region).

The two recent bombings in Volgograd have raised the profile of the security issue at the Sochi Winter Olympics six weeks hence & is making the Russian authorities even more security paranoid. For it has to be a uniquely tempting target for any number of people who want to give Putin a black eye. While the London Olympics went off without a terrorist hitch, with the taming of the IRA it lacked a 'natural enemy', &, unlike Putin, there were few, if any, serious David Cameron-, or Queen Elizabeth-, haters. But there may be a precedent in Britain for what may (*literally*) lay in wait in Sochi. For back in 1984 Margaret Thatcher & most, but not all, of her supporters escaped death at its Brighton Party Conference when the IRA exploded a bomb there it had put in place a month earlier. To construct the Sochi facilities Russia employed an army of migrant workers from countries some of whose people hate Russia (incl. Armenia, Kyrgyzstan, Serbia, Tajikistan, Uzbekistan & Ukraine), and then overworked & underpaid them. So any one of them may have personal-, as well as community-based-, reasons to help preposition terrorist devices at various Sochi sites - *as often the case, I hope to be proven wrong but fear I may be proven right*.

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THERE WAS A HUGE FIREBALL ... (NP, Dave Colpack)

⁴ The first occurred in 2006 & 2007.

⁵ The first Japanese Prime Minister to do so in seven years.

- On December 30th, in 15 below (minus 26 Celsius) weather, a grain train derailed near the 2,400 inhabitant North Dakota town of Casselton, 25 miles West of Fargo. Some of its cars fell onto, & caused the derailment of a mile-long, 106 car Burlington Northern train carrying Bakken light crude, on the adjoining track & the rupture, explosion & incineration of a number of its cars⁶, causing huge fireballs, almost like mini-mushroom clouds near an ethanol plant, but fortunately not within the town itself. This came days after the state oil regulator⁷ said that in 2014 90% of the oil produced in the state will move to market by rail, vs 60% this year. And earlier the railroads had said that they expect to move 400,000 car loads of oil in 2014, up from 10,840 in 2009, & that 99.997% of rail shipments of hazardous goods reach their destination safely.

This event prompted the voluntary evacuation of two-thirds of the town's population due to air quality concerns. The cars that ruptured were on an older model known to easily rupture; a 2009 derailment of an ethanol train near Rockford, Ill. prompted calls for their mandatory replacement which the industry has resisted with all its might on the grounds "this would cost them more than US\$1BN while the annual cost of derailments is only US\$62MM". Casselton's mayor disputes the railways' claimed safety record, saying that derailments are happening so frequently as to make them not a matter of "if", but of "when". And this is the third major, headline-grabbing oil train derailment in the past six months, the others being the one in Québec in July that killed 47 people & destroyed the downtown core of a 6,000 inhabitant town & the other one in Alabama that just dumped one million gallons of oil into a local swam but killed no one.

US FURIOUS AT ISRAEL EQUIPMENT TRANSFER TO CHINA (Israel National News. com, Tova Dorin)

- Israel sold a miniaturized refrigeration system to China made by RICOR, an Israeli world leader in innovative cooling technology for, among others, military purposes. Washington feels this poses a security risk to the Middle East, since the technology could find its way into Iran & enhance its nuclear weapons capability, and wasn't mollified by Israeli assurances all sensitive components had been removed from the equipment prior to shipment. This controversy supposedly led to the December 21st resignation of Meir Shalit, the Defense Ministry's Head of Defense Exports, who had approved the sale.
- In the past year, Israel and China have intensified their political & economic ties. Prime Minister Netanyahu & Economics Minister Naftali Bennett have visited Beijing and in mid-December Foreign Minister Wang Yi was in Jerusalem to 'discuss economic possibilities'.

Foreign Ministers don't come to discuss "economic possibilities". This may be collateral damage from Obama's pivot policy by having Netanyahu 'hedge his bets'. And it fits with rumours Saudi Arabia has been inching closer to Beijing & Paris, and even been making overtures to Israel (facilitated by the fact both are on the side of Syria's non-Islamist Sunny rebels).

U.S FIRMS STAUNCHLY RESIST DISCLOSURE OF CEO PAY RATIOS (G&M, Joanna Slater)

⁶ By various accounts 10, 18 or 21.

⁷ Who only days earlier had told the State's lawmakers his agency was drafting a report "to dispel this myth that it (*i.e. oil*) is somehow an explosive, really dangerous thing to have traveling up and down rail lines."

- The three year-old (*Dodd-Frank*) financial reform legislation provides for publicly-traded companies to publish the ratio of their CEOs' pay to that of their average employee. This has prompted a big pushback by companies claiming this number would be hard to compile, costly to calculate & meaningless for investors. In a letter to the SEC the US Chamber of Commerce's David Hirschmann said it was just "an effort to achieve social objectives unrelated to investment decisions." Still, the SEC is expected to issue regulations next year, having received 600+ comments from trade associations, corporations, pension funds, unions, lawyers & academics, and 120,000+ letters from citizens supporting the idea⁸.
- According to Bloomberg CEO pay in the S&P 500 companies is 204x that of a typical employee in their industry (*the comparable number for Canada's 100 top CEO's is only 171x*) . A corporate governance expert at the University of Delaware, who once called this a "cheap thrill" & not essential information for investors, now says it will make Boards of Directors look more holistically at CEO pay, rather than just comparing it to that others. The Center for Executive Compensation, the human resource advocacy arm of some of America's largest companies, calls the idea "excessively burdensome, especially for global companies, relative to the scant or non-existent benefits", adding that its multinational members operate, on average, in 34 countries with 46 different HR systems⁹ & that large investors had not asked for such information (*which is not the point*). On the other hand, Canada's NEI Investments, with AUM of \$5.5BN, submitted a letter to the SEC commending it for its efforts in this respect, noting it had been pushing Canada's big banks for a similar move. And the idea is not new in the US; for a few companies have already implemented it on their own initiative, incl. Whole Foods Market Inc, the *organic* food grocery chain, that limits executive pay to 19x the average employee wage, something one of its executives told the WSJ is "a relatively straightforward process."

While fifty years ago implementing such a number might have been "hard to compile", if a company were to find it so today, it likely should review its management information system.

BANKS WARN VOLCKER RULE COULD CAUSE WRITE-DOWNS **(WSJ, Andrew R, Johnson)**

- A *version* of the Volcker Rule was approved by the regulators on December 10th. Prior to the financial crisis hundreds of banks issued collateralized debt obligations (CDOs) backed by trust-preferred securities (so-called Trups). While bank executives & analysts have long claimed the Rule would force some banks to sell these, resulting in write-downs, in December a Salt Lake City-based regional bank holding company, Zions Bancorp, did announce a US\$387MM write-down. So on Christmas Eve the ABA asked the U.S Court of Appeals for the District of Columbia to stall the application of the Volcker Rule to Trups on the grounds regulators had shown "utter disregard" for the costs it would impose on numerous small banks & had erred in classifying Trups as "covered funds"¹⁰

⁸ But in its schedule for new regulations to be published there was, to many people's dismay, a notable absence of plans to publish regulations to implement the the Dodd-Frank bill provision that would force US oil & gas-, & mining-, companies to disclose their payments to foreign governments (& *their officials?*)

⁹ Which, on the surface at least, seems an admission of administrative failure.

¹⁰ That enable banks to do indirectly what they couldn't do directly under the Volcker Rule.

rather than debt instruments. And the Court gave the Fed, the FDIC & the Office of the Controller of the Currency three days to respond to the ABA motion.

- Regulators, financial institutions & industry groups have long been sparring over the Dodd-Frank bill, nowhere more so than over the Volcker rule that would severely restrict their 'proprietary trading'¹¹, with the latter two accusing, & *using the pretext of*, the former of having failed to give enough weight to the cost of their various provisions. But Isaac Boltansky, an analyst at Compass Point Research & Trading, said critics of the Trups-backed CDO part of the Volcker Rule are "clinging on to it as representative of the ... perils of the rest of the rule" & doesn't expect it to have a major impact on banks overall.

"You cannot have omelettes without breaking eggs."¹² The banking industry seems to suffer from corporate "affluenza", unable to appreciate that bad decisions have bad consequences.

TAX CHANGE PROVES U.S. STILL LOVES CARS (Postmedia News, William Marsden)

- For decades commuters could use some of their monthly parking expenses as a tax-deductible item. In 2009 the government gave equal treatment to those commuting using transit (which in New York City's case benefited 10% of its population¹³). But on January 1st it will be reduced for transit users from US\$245/month to US\$130, but raised for drivers from US\$245 to US\$250. So, while many Americans protest the Keystone XL pipeline out of concern about carbon emissions from the oilsands, little is heard about a tax change favouring commuting by car. And while 22 Senators & a few Reps. have called for an extension of the tax incentive for commuters, nothing has been done, and lawmakers such as Sen. Barbara Boxer (D.-Cal) even support further increasing the tax breaks for car commuters (because most Californians drive to work).
- The size of the US car fleet has risen steadily since 1960¹⁴ & 76% of commuters favour solo driving. And while there has been an encouraging increase in those regularly riding their bike to work (up 9% since 2011), they still only account for 0.61% of all commuters.

The IEA earlier this month, due to stronger demand in the OECD countries, upped its forecast of global oil demand for this year to an average 91.2MM bbld (& its YoY growth by 0.1MM to 1.2MM bbld), & its forecast for 2014 to 92.4MM bbld (up 3.8% from 2011). And in November total US fuel use hit the 20MM bbld level for the first time in over five years, while in the Second Quarter, US oil consumption had increased, after eight quarterly declines in a row.

WE'RE FRACKING TO STAND STILL (G&M, Thomas Homer-Dixon)

¹¹ Which while highly profitable for their bottom line, albeit potentially also high risk, has very limited, if any, merit in real economic terms.

¹² A phrase coined by Joseph Chamberlain, an English businessman & politician, and Britain's Colonial Secretary during the Boer War in an address to the Annual Dinner of the Royal Colonial Institute on March 31st, 1897 (subsequently variously attributed to Stalin & Lenin, and used by Nikita Krushchev in an address to the UN General Assembly).

¹³ That city is the only place in the country where > 50% of the inhabitants don't own a motor vehicle (& 75% in Manhattan) vs only 8% nationwide

¹⁴ As of June 30th, 2013 there were 247.9MM cars & light trucks on America's road's, a post September 30th, 2008 high.

- There is now a new light source stronger than Chicago's in NASA's satellite infrared nighttime scan of North America from the flaring of natural gas in North Dakota's Bakken oil field (a "staggering waste of energy ... & a significant source of carbon emissions"). But this doesn't detract those who think fracking will make the US the world's largest oil producer, and cause a global surfeit of oil & plummeting prices. But evidence is growing fracking has been hyped. While it may lead to a short-term boom in US oil output, that will last for at most 15 years before dropping precipitously. Even the IEA says that fracking "does not mean that the world is on the cusp of a new era of oil abundance."
- While the EIA (US Energy Information Agency) waxes eloquent about how the industry is now drilling wells faster & producing more oil from each, quadrupling the productivity of Bakken wells, it may be exaggerating : rig productivity varies wildly & may even have been higher in 2009, and the output of wells over one month old declines at an average 53% per year, far worse than even the most pessimistic forecasts. According to the EIA's Director of Energy Markets, "for every 100 barrels you produce from new Bakken wells, 70 percent ... go just to replace the decline from oil wells." And, while in the Bakken's "sweet spot" (one-third its area), the energy return is 12 to 1, in the rest it can go to < 4 :1, with the industry (*acting rationally by*) highgrading the resource base.
- Contrary to the dreams of those who expect fracking to result in lower oil prices, an OECD analysis released earlier this year envisages that, given reasonable estimates of oil demand from China & India (& *other developing economies?*), the price of oil could go as high as US\$190 by 2020. For, while fracking may change the North American oil supply picture for a while, the underlying reality is that cheap oil is a thing of the past.

The writer is Director of Waterloo University's Centre for International Governance Innovation & while he now has a Ph.D. from MIT, during his late teens & early twenties worked as a labourer on oil rigs, and in gas refineries & pipeline construction. He likely undermined his credibility with some people with an interview in the NYT in which he said among others that the oilsands industry is "undermining Canadian democracy ... (by) relentlessly twisting our society into something we don't like" & that resource extraction is the enemy of innovation.

EASTERN CANADA ONLY OPTION FOR U.S. CRUDE EXPORTS (EJ, Dave Cooper)

- Robert Johnson is Director of Global Energy for the Washington-based Eurasia Group, a political risk research & consulting firm. Noting that the 1970's law prohibiting the export of US-produced crude doesn't apply to Canada, he believes US-produced oil will start moving by ship or rail to Suncor's refinery in Montreal, Valero's near Québec City & the Irving one in Saint John, N.B. Oil from the Eagle Ford in Texas has already come North to replace 25% of Eastern Canada's 801,000 bbl/d oil consumption (replacing Middle Eastern & African oil) & the prospect of replacing more of it is making the mouths water of US oil producers whose product is flooding the US market with nowhere else to go.

As if having to cross the lands of 180 different Indian bands weren't enough, this could further darken the outlook for TransCanada's Energy East pipeline project, especially if the movement of US oil to Montreal & Quebec City were to pre-empt its use of Enbridge's 9B pipeline¹⁵, if & when the reversal of this 40 year-old line is approved, and if the Americans were to engage in price cutting for market share. This will make it only make it that much more important for Alberta to find ways to get its oil safely & efficiently to Pacific. Rail cannot be counted on to provide anything but a partial solution (even though Kinder Morgan & Imperial have just

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From the Westover terminal, Northwest of Hamilton, Ont., to Montreal East.

announced to spend \$270MM a major rail-loading facility just East of Edmonton), & then only until a derailment dumps a few million litres of dilbit in one of BC's rivers (because of the nature of the terrain many of the rail tracks in Interior BC run smack on rivers' edges). Enbridge's proposed Northern Gateway pipeline remains entangled in controversy & may never come to fruition, in part because the Company mishandled the process from Day One (& in part because it should have gone to Prince Rupert, an open sea port, whereas Kitimat is far from the open ocean & accessible only via a long & narrow sea arm. The tripling of the capacity of the existing Kinder-Morgan pipeline will go ahead because the Company already owns the necessary right-of-way & can avoid much controversy by rerouting its extension away from its existing Burnaby terminal to Blaine, Wash. where there is excess capacity due to declining Alaska oil production. But it will only be able to handle a fraction of the incremental oilsands output the Alberta oilsands producers & provincial government have been talking about. And the end of the day, the only sensible option to get Alberta oilsands crude in volume out to Pacific Rim-, and Southeast-, & South-, Asian markets will be to go North from Fort McMurray into the Northwest Territories and from there West through the Northwest-, & Yukon-, Territories to Valdez, Alaska where it would be welcomed with open arms since it has excess oil-handling capacity due to the fall-off in production on Alaska's North Slope.

MOUNTIE ACCUSED OF FAKING DOCUMENT (EJ, Brent Wittmeier)

- A 25 year-old constable at the RCMP detachment in the 1,000 inhabitant town of Spirit River in Northwestern Alberta, charged with perjury & fabricating evidence, has been suspended with pay, & was to appear in court on December 30th. This isn't the first time he has been in trouble with the law. For in 2008 he discharged his firearm at home, an event that only came to light when, months later, a civilian asked one of his colleagues about it. While such an event usually warrants a criminal charge, in his case it resulted in an internal hearing that, after admitting disgraceful conduct, he was docked five days' pay

*Tax payers may wonder why in such cases individuals should be suspended **with** pay, i.e. given a paid vacation. And, more generally speaking, one wonders when the RCMP will learn that, rather than putting the wagons in a circle when one of theirs does something stupid and/or inappropriate, they should excise the rot by turfing the individual in question out on his ear (& if the current regulations prohibit this, the politicians should act to make this possible).*

EU DOWNPLAYS LOWERING OF AAA CREDIT RATING BY S&P (AP)

- The December 20th cut to AA+ came in the wake of a bitter budget battle & the debt problems of some of its members. Olli Rehn, the EU Commissioner for Economic and Monetary Affairs, disagreed with the move & said "all member states have always and ... throughout the financial crisis provided their expected contributions to the budget in full and on time ... the EU rating with ... Fitch and Moody's is AAA."

The difference between a AAA-, & a AA-, rating is that between an "extremely" strong-, & a "very" strong-, capacity to meet financial commitments. And regardless of Rehn's comments, other EU officials said the move hadn't surprised them given S&P's change a year ago in the outlook for the EU to "negative", its recent downgrading of the Netherlands & its lowering its outlook for, among others, France, Italy & Spain. And, they said, with little by way of a deficit or debt outstanding, the EU remained a strong credit.

IS CHINA ON THE VERGE OF ITS 'DUBAI MOMENT'? (Reuters, Peter Larsen)

- In 2009 Dubai World, a private entity, defaulted on its debt, thereby disabusing its creditors of the notion that Dubai's ruling family would stand behind it [*about the same time as the US served (unofficial) notice to bondholders in Fanny Mae & Freddie Mac bonds that they should not take it for granted that their paper was backed by the full faith and credit of the United States*]. Banks & investors have similarly lent freely to Chinese banks, SOEs & local governments on the assumption that, if push came to shove, they would be bailed out by Beijing. But if that were to turn out not to be the case, the outcome would be far more serious than the Dubai World incident; for, while the latter owed just US\$80BN, China's total debt is estimated to be in the US\$18TR range. And while most of this is owed to locals, which means that letting borrowers go TU would have serious domestic implications, Beijing's plan to introduce deposit insurance would remove that barrier to it standing aside if a major borrower got into trouble.

And it undoubtedly will not have escaped Beijing's attention that in Europe, & to a lesser extent the US, the idea has gained ground that private sector interests should "bail in"-, rather than have governments "bail out"-, foundering financial entities.

ASIAN YARDS VIE FOR LNG TANKER BUSINESS (WSJ, Simon Hall)

- Japan & South Korea have long been the world's biggest LNG markets, & demand there continues to grow amidst debates over nuclear energy use, while demand in China & India has started to balloon. So LNG tanker building is one of the few industry sectors to be doing well, with 134 built since 2009 (100 in South Korea, 20 in China & 13 in Japan). And depending on the global growth of LNG liquifaction plants, as many as 200 more may need to be built over the next five years. With each costing US\$250+MM, Chinese & Japanese shipyards want to get a bigger piece of the action. China may need as many as 60 & Beijing wants them to be built at home and, while Chinese shipyards generally lack the technology & quality controls for such sophisticated ship construction, government aid & collaboration with Japanese LNG shippers & ship yards are enabling them to improve rapidly. And Japan stands to benefit from a shipbuilding industry restructuring having created new economies of scale, its greater technological knowhow & the weak yen. Meanwhile the Korean yards are still getting the lion's share of new orders & say that as long as the Chinese yards mostly cater to domestic demand they won't be serious global competitors (although they could become so once they gain more technical knowhow).

The Chinese yards' reputation for late deliveries won't help them gain foreign orders, & neither will that for poor quality control; for while there has never yet been an LNG carrier explosion, if one ever were to go BOOM it could make Hiroshima look like a kid's firecracker (just imagine the effect of, say, 175,000 cubic metres of LNG expanding 333x in a 'shake' (one trillionth of a second)). And while some say China might push LNG tanker newbuilt prices down, its ability to do so may be constrained by its rising wage costs & strong currency.

UNION PULLS SUPPORT FOR ANC, ZUMA (AP)

- The National Union of Metal Workers of South Africa is the country's biggest union & a key partner in the ruling ANC alliance. But on December 20th, after a government inquiry had reported "irregularities" in spending at President Jacob Zuma's country estate but said they were justified by security concerns¹⁶, it called on Zuma to resign & announced it

¹⁶ When the questions proliferated, the Zuma regime resorted to an apartheid-era law by declaring his estate a "national key point", the cost of which can be kept confidential.

would not support the ANC in next year's elections. For, said its secretary-general, his administration is "steeped in corruption, patronage and nepotism."

Many African countries are now in very much the same as Latin America was fifty years ago, with those in power shamelessly enriching themselves and their families & hangers-on, & those out of power clamouring to replace them so that they can take their turn 'dipping their beaks'.