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Peak Oil News

A Compilation of New Developments, Analysis, and Web Postings

Tom Whipple, Editor

Tuesday, February 28, 2012

Current Developments

1. OIL SLIPS BELOW $124 ON DEMAND CONCERNS

By Claire Milhench
4:46am EST

LONDON (Reuters) - Oil prices slipped below $124 a barrel on Tuesday as investors worried about high prices hurting demand, but ongoing supply concerns and the expectation of further liquidity injections from the ECB helped underpin prices at elevated levels. Front-month Brent was down 69 cents to $123.48 a barrel by 0925 GMT, after settling more than $1 lower on Monday. U.S. crude was down 10 cents at $108.46 a barrel. Analysts and traders said that the rise in oil prices to near 10-month highs last week had led to worries about the impact on the struggling economies of Europe, especially as the euro remains weak against the dollar. "There is some concern growing that high oil prices may impact the economy and oil demand in future," said Carsten Fritsch, an analyst at Commerzbank in Frankfurt.

2. OIL DROPS A SECOND DAY ON CONCERN PRICES NEAR 9-MONTH HIGH MAY CURB DEMAND

By Grant Smith and Ben Sharples
Bloomberg
Feb 28, 2012

Oil dropped for a second day in London on growing speculation that demand may be curbed by a rally that has driven prices to a nine-month high. Brent futures slid as much as 0.7 percent after falling for the first time in six days yesterday. Demand for oil may deteriorate after London-traded Brent rose to a record high when priced in euros and pounds, according to Morgan Stanley. U.S. supplies probably rose to the highest level in five months last week, a Bloomberg

News survey showed before a report from the Energy Department tomorrow. "We do not see sustained gains from here, and the market is likely to pause," said Andrey Kryuchenkov, an analyst at VTB Capital in London who predicts that prices will remain little changed this week. "The market has been overbought lately, with a substantial geopolitical risk premium in London, due to ongoing jitters over Iran's controversial nuclear program." Brent oil for April settlement fell as much as 92 cents to $123.25 a barrel on the ICE Futures Europe exchange in London. Prices have advanced 15 percent this year on concern the west's dispute with Iran over the Islamic republic's atomic research may lead to a disruption in exports from the Middle East.

3. OIL TANKERS SEEN FALLING 42% AS JAPAN WEAKENS MOST SINCE TSUNAMI: FREIGHT

By Rob Sheridan
Bloomberg
Feb 27, 2012

The largest drop in Japanese oil consumption since last year's earthquake and tsunami may cause tanker rates to plunge 42 percent next quarter, threatening the biggest rally in shares of shipping companies since 2005. Demand in Japan, the second-largest destination for supertankers after China, will drop 19 percent in the second quarter from now, according to the International Energy Agency in Paris. Daily rates for the 1,000-foot-long ships will average $17,000, compared with $29,280 now, the median of nine analyst estimates compiled by Bloomberg show. Investors may profit by buying forward freight agreements, traded by brokers and used to bet on shipping costs, which anticipate $10,883. The six-member Bloomberg Tanker Index (TANKER), including Frontline (FRO) Ltd., rallied 11 percent this year on prospects for daily crude demand to surpass 90 million barrels for the first time ever. That's masking the slump in Japanese consumption and the weakest annual gain in Chinese oil buying since at least 2006. Shipowners are relying on both nations to help curb a capacity glut as the fleet expands to a three-decade high.

4. IRAN MAY BE "STRUGGLING" WITH NEW NUCLEAR MACHINES

By Fredrik Dahl
Mon, Feb 27 2012

VIENNA (Reuters) - Iran is still relying on old technology to expand its nuclear program, in what may be a sign it is having difficulties developing modern machines that could speed up production of potential bomb material. A report by the U.N. nuclear watchdog last week said Iran was significantly stepping up its uranium enrichment, a finding that sent oil prices higher on fears tensions between with the West could escalate into military conflict. Israel has threatened to launch pre-emptive strikes to prevent Iran getting the bomb and Defense Minister Ehud Barak has said Tehran's continued technological progress mean it could soon pass into a "zone of immunity," suggesting time was running out for an effective military intervention. But, contrary to some Western media reports in the run-up to Friday's International Atomic Energy Agency report, Iran does not yet seem ready to deploy advanced enrichment equipment for large-scale production, despite years of testing.

[5. IRAN 'INTENSIFIED CLAMPDOWN' AHEAD OF VOTE]

Amnesty says government has increased "wave of arrests" in attempt to curb free speech before assembly elections.

Al Jazeera

With their leaders under de-facto house arrest, the reformists remain virtually absent from the March 2 vote [Reuters]

[6. ITALY'S SARAS: IRAN OIL STEADY AT 10% OF SUPPLY]

LONDON (Dow Jones)--Italian refiner Saras SpA (SRS.MI) said Tuesday it is keeping Iran oil imports relatively steady at 10% of its supply for now, despite a full European Union embargo due July 1. The disclosure by Italy's second-largest independent refiner by capacity contrasts with an announcement by France's Total SA (TOT) that it stopped buying oil from the Islamic Republic. In remarks in its fourth quarter and annual results, Saras said it "currently uses approximately 10% of Iranian crude oils in its refinery mix." Many refiners are locked in long-term contracts with Iran, making it difficult to reduce supplies before the embargo starts.

[7. IRAN HALTS CRUDE OIL SHIPMENT FOR GREECE]

TEHRAN, Feb. 27 (UPI) -- Following a decision to halt oil sales to Britain and France, Iran said it refrained from loading a Greek oil tanker with around 500,000 barrels of crude oil. The semiofficial Fars News Agency said it learned that a Greek tanker returned to port empty after Iran refrained from loading its cargo for the financially troubled country. The report notes other oil-rich countries have refrained from dealing with Greece. "Greece would be particularly affected by oil sanctions as other exporters have refused to deal with Greek traders," the FNA report stated. Iran's decision last week to halt crude oil exports to the United Kingdom and France sent oil prices to nine-month highs. The European Union set a July 1 deadline for an Iranian crude oil embargo, though Iranian lawmakers voted to pre-empt the EU move. Tehran summoned many of its European envoys to protest what it said was an unfair response to what it describes as a peaceful nuclear program. U.N. inspectors last week expressed frustration regarding cooperation following their most recent visit to Iran.

8. TURKEY HOLDING TALKS ON DIVERSIFYING ENERGY SUPPLY - ENERGY MIN

- -Turkey looking to diversify energy supplies
- -Turkey still gets 30% of its oil from Iran; among the Islamic Republic's top crude consumers
- -Trade between Ankara and Tehran fell 65% in January

ISTANBUL (Dow Jones)--Turkey is holding talks with a number of countries, including Saudi Arabia and Libya, as it looks to diversify its energy supplies, while Ankara will import natural gas from "new countries" this year, Energy Minister Taner Yildiz said Tuesday. Speaking in an interview with Turkish broadcast CNBC-e, Yildiz insisted that the talks weren't part of a plan to reduce energy purchases from Iran, which is subject to international sanctions from the US and European Union aimed at forcing Tehran to halt its nuclear program. But the minister's comments also come amid the increasingly divergent interests of Sunni Turkey and Shiite Iran in the wake of the US drawdown from Iraq and the Arab Spring. That divergence is most clearly manifested in Syria, where Tehran supports the minority Shia regime of President Assad, while Ankara is offering help to refugees and the majority Sunni opposition. Turkey's Foreign Minister Ahmet Davutoglu warned on the eve of a visit to Tehran in January against the risk of a "Cold War" developing between Shiites and Sunnis across the Middle East.

9. JAPAN ASKS EU ABOUT IMPLICATION OF IRAN SANCTIONS ON SHIPPING INSURANCE

Platts
February 28, 2012

The Japanese government has asked the European Union about the implications of its sanctions against Iran for non-EU states as Japanese shipowners could see their insurance cover for voyages to Iran drop dramatically when the sanctions come into effect July 1, sources close to the matter told Platts Tuesday. Japan has asked the EU for details as Brussels finalizes regulations to bring the sanctions agreed January 23 into effect, the sources said. Japan's Foreign Ministry, Ministry of Land, Infrastructure, Transport and Tourism, and Ministry of Economy, Trade and Industry are working together to ask the EU and clarify a potentially "major issue," one source said. In response, Brussels has told Tokyo that the EU is still working on the regulations, the sources added. While the EU ban on import and transportation of Iranian crude does not directly affect Iran's Asian customers, a provision in the sanctions legislation agreed January 23 is having an impact far beyond European shores.

10. EXXON CONFIRMS IRAQI OIL DEAL

HOUSTON, Feb. 28 (UPI) -- U.S. supermajor Exxon Mobil revealed it landed oil exploration and production contracts with leaders in Iraq's semiautonomous Kurdish region last year. Exxon, in a filing with the U.S. Securities and Exchange Commission, said it has a five-year exploration deal and a 20-year production agreement with the Kurdistan Regional Government. "Exploration and production activities in the Kurdistan region of Iraq are governed by production sharing contracts negotiated with the regional government of Kurdistan in 2011," the filing was quoted by The Wall Street Journal as reading. Baghdad has expressed frustration with energy deals between the KRG and international companies like Exxon. In May, Iraq is expected to put around a dozen oil and natural gas blocks up for auction in its fourth licensing round. Exxon was blacklisted, however, because of contracts with the Kurdish administration.

11. SUDAN DENIES "CONFISCATING" INDEPENDENT SOUTH'S OIL

By Sui-Lee Wee
5:19am EST

BEIJING (Reuters) - Sudan denounced suggestions that it was confiscating oil from South Sudan on Tuesday and indicated that the newly independent South was responsible for stonewalling an oil deal between the two nations. South Sudan became Africa's newest nation in July under a 2005 peace deal that ended decades of civil war, but many issues remain unresolved, including oil, debt and violence on both sides of the poorly defined border. Tension escalated in January after Khartoum began taking oil from its landlocked southern neighbor, which exports its crude through Sudan's pipelines to a port on the Red Sea. South Sudan shut down its entire oil production of 350,000 barrels a day in protest. Sudan Foreign Minister Ali Ahmed Karti denied "confiscating" the oil, saying the South had used Sudan's facilities, equipment and ports without "paying a penny". "This is not the right word to be used here," he told reporters. "We are not confiscating anything. Think of that, we gave everything. We gave the secession of the south, we helped everything. We gave them, according to the agreement, the whole facilities and oil within that territory.

12. VENEZUELA TO CONTINUE SUPPLYING OIL TO SYRIA AS SANCTIONS INTENSIFY

By Nathan Crooks and Jose Orozco
Bloomberg
Feb 27, 2012

Venezuela said it will continue to ship fuel to Syria, even as Europe extended sanctions on the Middle East nation for using military force to quell civilian dissent against President Bashar al-Assad's government. "We have sent Syria two cargoes of diesel, and shipments will continue as they are needed," Venezuela's Oil Minister Rafael Ramirez said yesterday, without providing more details. "We have a high degree of friendship and cooperation with Syria, a country under siege." European Union governments tightened sanctions on Syria yesterday by freezing the assets of the country's central bank and forbidding Syrian cargo-only flights. Last year, the U.S. imposed sanctions on Petroleos de Venezuela SA for delivering at least two cargoes of a gasoline additive to Iran between December 2010 and March 2011. PDVSA isn't prohibited from shipping oil to Syria under current sanctions, Ramirez, also the president of the state oil company, said in Caracas where he signed loans with China.

13. JAPAN WEIGHED EVACUATING TOKYO IN NUCLEAR CRISIS

By Martin Fackler
The New York Times

TOKYO - In the darkest moments of last year's nuclear accident, Japanese leaders did not know the actual extent of damage at the plant and secretly considered the possibility of evacuating Tokyo, even as they tried to play down the risks in public, an independent investigation into the accident disclosed on Monday. The investigation by the Rebuild Japan Initiative Foundation, a new private policy organization, offers one of the most vivid accounts yet of how Japan teetered on the edge of an even larger nuclear crisis than the one that engulfed the Fukushima Daiichi Nuclear Power Plant. A team of 30 university professors, lawyers and journalists spent more than six months on the inquiry into Japan's response to the triple meltdown at the plant, which followed a powerful earthquake and tsunami on March 11 that shut down the plant's cooling systems. The team interviewed more than 300 people, including top nuclear regulators and government officials, as well as the prime minister during the crisis, Naoto Kan. They were granted extraordinary access, in part because of a strong public demand for greater accountability and because the organization's founder, Yoichi Funabashi, a former editor in chief of the daily newspaper Asahi Shimbun, is one of Japan's most respected public intellectuals.

14. JAPAN CITIES PRESS UTILITY TO SWITCH FROM NUCLEAR

- Mayors say no utility should depend on single energy source
- Only two of 54 reactors on stream a year after nuclear disaster
- Government wants some units restarted to cope with summer demand

By Risa Maeda

TOKYO, Feb 27 (Reuters) - Three of Japan's major cities called for Kansai Electric Power Co, its second largest nuclear generator, to draw up a plan to switch to other energy sources nearly a year after the country suffered the world's worst nuclear accident in 25 years. The mayors of Osaka, Kobe and Kyoto, home to a total of 5.7 million people, on Monday submitted questions on prospects for alternative energy supplies and price incentives to curb demand. The cities hold a total 12 percent stake in Kansai. Nuclear power accounted for 44 percent of demand in Kansai's base in western Japan in the year to March 2011 -- making it the country's most nuclear-dependent utility. Only two of Japan's 54 nuclear reactors are on stream after an earthquake and tsunami crippled the Fukushima Daiichi plant, run by Tokyo Electric Power Co., or Tepco, the largest nuclear operator. Many are stopped for regular maintenance and must undergo "stress tests" before they are restarted.

15. INSIGHT: CONFLICT LOOMS IN SOUTH CHINA SEA OIL RUSH

By Randy Fabi and Manuel Mogato
Mon, Feb 27 2012

PUERTO PRINCESA, Philippines (Reuters) - When Lieutenant-General Juancho Sabban received an urgent phone call from an oil company saying two Chinese vessels were threatening to ram their survey ship, the Philippine commander's message was clear: don't move, we will come to the rescue. Within hours, a Philippine surveillance plane, patrol ships and light attack aircraft arrived in the disputed area of Reed Bank in the South China Sea. By then the Chinese boats had left after chasing away the survey ship, Veritas Voyager, hired by U.K.-based Forum Energy Plc. But the tension had become so great Forum Energy chief Ray Apostol wanted to halt two months of work in the area. "They were so close to finishing their work. I told them to stay and finish the job," Sabban, who heads the Western Command of the Philippine Armed Forces, told Reuters at his headquarters in Puerto Princesa on Palawan island.

16. GAS PRICES CLIMB FOR 21ST DAY

PHOTO: KEVORK DJANSEZIAN/GETTY IMAGES

Changing gas prices is becoming a daily occurrence, with the national average approaching $3.72 a gallon.

NEW YORK (CNNMoney) -- Gas prices continued to climb on Tuesday, inching closer to $4 a gallon as they rose for the 21st day in a row. The nationwide average rose to $3.72 a gallon, up 2 cents from a day earlier, according to the motorist group AAA. Only a month ago, the nationwide average was $3.42 a gallon. Gas prices are up 13.3% so far in 2012. The average price is down 40 cents, or about 9.7%, from the record high of $4.11 reported on July 17, 2008. Average prices for regular gasoline are more than $4 a gallon in California, Alaska and Hawaii. Gas prices are just shy of the $4 mark in New York, Connecticut, and Washington, D.C., according to AAA. The lowest average gas prices are in Wyoming and Colorado, where a gallon is going for less than $3.20. Gas prices have been rising on the back of soaring oil prices, which have surged 10% over the past month amid fears that tensions with Iran will lead to an all-out war that causes a disruption in oil supplies.

17. OPEC URGES US TO RECONSIDER OFFSHORE DRILLING BAN

The Daily Star (Lebanon)

BRUSSELS: OPEC called Monday on the United States to reconsider a ban on new deep-water drilling that could hold back oil supplies - despite safety concerns in the wake of the massive Gulf of Mexico oil spill. Abdalla Salem El Badri, secretary general of the 12-member Organization of Petroleum Exporting Countries (OPEC), says offshore drilling is an important source of oil and any ban would be too hasty when the cause of the spill is still unclear. "We should not really ban it and we should not jump to conclusions," he told reporters after meeting European Union officials in Brussels. President Barack Obama last month imposed a six-month ban on Gulf of Mexico drilling after an April 20 explosion at a BP oil rig killed 11 workers and blew out a well 1,525 meters under water - spewing out hundreds of millions of gallons of oil. A federal judge last week overturned the ban as rash and heavy-handed. The White House has appealed, saying continued drilling exposes workers and the environment "to a danger that the president does not believe we can afford." The spill and the failure of efforts to stop the oil flow have alarmed other nations. The European Union says it will look at its drilling safety rules for the North Sea and make changes if necessary.

[18. TRANSCANADA CHOPS UP KEYSTONE XL TO PUSH IT AHEAD]

By Jeffrey Jones and Roberta Rampton

CALGARY/WASHINGTON (Reuters) - TransCanada Corp said on Monday it will build the southern leg of its $7 billion Keystone XL oil pipeline first, skirting a full-blown U.S. review and giving President Barack Obama ammunition to hit back at Republicans who have blasted his energy policy. Building the portion of the contentious pipeline that would run to Texas refineries from the Cushing, Oklahoma, storage hub before the northern section would help remove a pinch-point that has led to deep price discounts for U.S. and Canadian crude and forced refiners to rely more heavily on imports. TransCanada said it wants the $2.3 billion southern leg in service by mid- to late 2013. It said construction would create 4,000 U.S. jobs, compared with its previous estimate of 20,000 for the overall project, a figure environmental groups disputed. The company also wrote to the U.S. State Department on Monday detailing plans to refile an application shortly for the remainder of line running to Steele City, Nebraska, from the Canada-U.S. border, reminding officials that much of the environmental assessment work is already done.

19. TRANSCANADA TO CONSTRUCT CUSHING TO U.S. GULF COAST CRUDE-OIL PIPELINE

By Mike Lee and Jim Polson
Bloomberg
Feb 27, 2012

TransCanada Corp. (TRP) will proceed with building a $2.3 billion segment of its Keystone XL oil pipeline from Oklahoma to the Texas coast so that it isn't delayed by U.S. approval for the rest of the line. The company, based in Calgary, expects the segment to begin carrying crude from the Cushing, Oklahoma, storage hub to refineries on the U.S. Gulf Coast as soon as mid-year 2013, according to a statement today. TransCanada is separating the Cushing line from its application to President Barack Obama for approval of a Keystone expansion that will bring crude into the U.S. from Canada's oil sands. "We remain committed to building this overall project in a timely and efficient manner and to meet demand of shippers," said TransCanada Chief Executive Officer Russ Girling in an interview today. Shippers are making multi billion dollar commitments spanning decades and "they haven't wavered from Keystone," he said. As originally envisioned, Keystone XL would have carried as much as 830,000 barrels of oil a day from Alberta, Canada, and the Bakken Shale formation in North Dakota and Montana along a 1,661-mile (2,673-kilometer) path to Texas refineries. The full $7.6 billion Keystone pipeline needed a permit from the State Department because it crossed the U.S.-Canada border.

20. REPSOL CREWS BATTLING ALASKAN WELL BLOWOUT AFTER TWO WEEKS

By Pierre Bertrand
International Business TimesI

Repsol, Spain's No. 1 energy company, which started deepwater oil exploration off Cuba this month, is still battling a well blowout from almost two weeks ago in Alaska's North Slope.The blowout may cast doubt on some of its major oil projects off the coasts of Venezuela and Brazil. Drilling mud is a water-and-lubricant mixture that cuts down on friction. The fluid also helps move shavings of earth back to the surface and away from the drill so as to prevent the hole from filling back up. As of Saturday, the well was still not under control, Alaska's Department of Environmental Conservation reported. "Response crews continue 24-hour operations to steam thaw and remove drilling mud from the drilling rig in order to access the essential drilling rig components needed for the well-kill operation," the department said. As of Feb. 25. the department reported an additional 7,308 gallons of drilling mud and water was shipped off the drilling site, bringing the total volume of liquids discharged from the well to 43,176 gallons or 1,028 barrels. The department stressed that much of the liquid is water condensate from steam used to thaw out the frozen drilling mud from the Alaskan tundra. In all, 125 cubic yards of solid waste was shipped off the drilling site.

21. CRUDE FUTURES DECLINE AS G-20 REJECTS EUROPE REQUEST, IMF WARNS ON ECONOMY

By Moming Zhou
Bloomberg
Feb 27, 2012

Oil fell for the first time in eight days after the Group of 20 nations rebuffed calls from euro countries to increase lending resources, adding to concern that Europe's debt crisis will slow the economy and reduce demand. Prices dropped 1.1 percent as the G-20 said Europe needs to review its financial firewall before the group considers boosting the International Monetary Fund's resources. IMF Managing Director Christine Lagarde warned the world economy is "not out of the danger zone" amid fragile financial systems and rising oil prices. "We've got a range of fundamental factors that are bearish and Europe is in that category," said Tim Evans, an energy analyst at Citi Futures Perspective in New York. "We had been rising sharply day after day and prices have reached a level where traders are afraid to buy more." Oil for April delivery fell $1.21 to settle at $108.56 a barrel on the New York Mercantile Exchange. The contract rose to a nine-month high on Feb. 24. Prices have increased 9.8 percent this year. Brent oil for April settlement declined $1.30, or 1 percent, to $124.17 on the London-based ICE Futures Europe exchange. Both grades fell further in electronic trading after the settlements, with WTI down 2 percent and Brent down 1.7 percent.

22. SUPPORT IS OFFERED TO GREEK BANKS AFTER LATEST DOWNGRADE

By Jack Ewing
The New York Times

FRANKFURT - The European Central Bank acted Tuesday to prevent a potential collapse of the Greek banking system after the country was declared by a rating agency to be in "selective default," making Greek bonds ineligible as collateral. Standard & Poor's issued the latest downgrade late Monday because of a debt reduction deal reached last week with Greece's private sector creditors. Greece will pay back less than half the face value of its bonds under the agreement, which is ostensibly voluntary. The E.C.B. did not specifically mention the S.&P. downgrade Tuesday, but said in a press release that the agreement with creditors meant Greek bonds could no longer be used as collateral to get cash from the central bank. However, the E.C.B. said banks could continue to draw cash from national central banks temporarily under a separate program known as emergency liquidity assistance. The E.C.B. said it would accept Greek bonds as collateral again in mid-March, when European governments will guarantee part of the value of Greek bonds under a new program.

23. S&P PUTS GREECE IN SELECTIVE DEFAULT

By Kerin Hope in Athens and Gerrit Wiesmann in Berlin
The Financial Times

Greece shrugged off a downgrade to "selective default" on Monday by ratings agency Standard & Poor's, saying the move was expected following its launch of private sector involvementin a €206bn debt restructuring. The finance ministry said the downgrade was "pre-announced and all its consequences have been anticipated, planned for and addressed" by eurozone partners who are backing Greek efforts to avoid a disorderly default. A successful completion of the debt restructuring would clear the way for Athens to receive a second €130bn bail-out from international lenders, in return for implementing a fresh round of fiscal and structural reforms. Greece would remain in selective default until its debt swap offer closes on March 12 for a majority of bondholders, but "upon completion of the PSI, the sovereign is expected to be re-rated upwards," the ministry said. S&P said the downgrade followed the retroactive insertion by Athens of a "collective action clause" forcing all bondholders to accept the terms of the deal put forward by the government for bonds issued under Greek law.

24. S&P DOWNGRADES GREECE TO SELECTIVE DEFAULT

4:31am EST

ATHENS (Reuters) - Standard & Poor's on Monday cut Greece's long-term ratings to 'selective default', the second ratings agency to proceed with a widely expected downgrade after the country announced a bond swap plan to lighten its debt burden. S&P said that once the debt exchange is concluded, it would likely raise Greece's sovereign credit rating to the speculative 'CCC' category. "We lowered our sovereign credit ratings on Greece to 'SD' following the Greek government's retroactive insertion of collective action clauses (CACs)," the U.S. ratings agency said. It said Greece's retroactive insertion of CACs -- which enforce losses on investors who do not voluntarily sign up to the offer -- changed the original terms of the affected debt and made the exchange a "distressed debt restructuring". Greece formally launched the bond swap on Friday. Under the deal, bondholders will take losses of 53.5 percent on the nominal value of their Greek holdings, with actual losses put at around 74 percent. S&P said if enough bondholders did not accept the bond swap offer, Greece would face an imminent outright payment default.

Discussion and Analysis

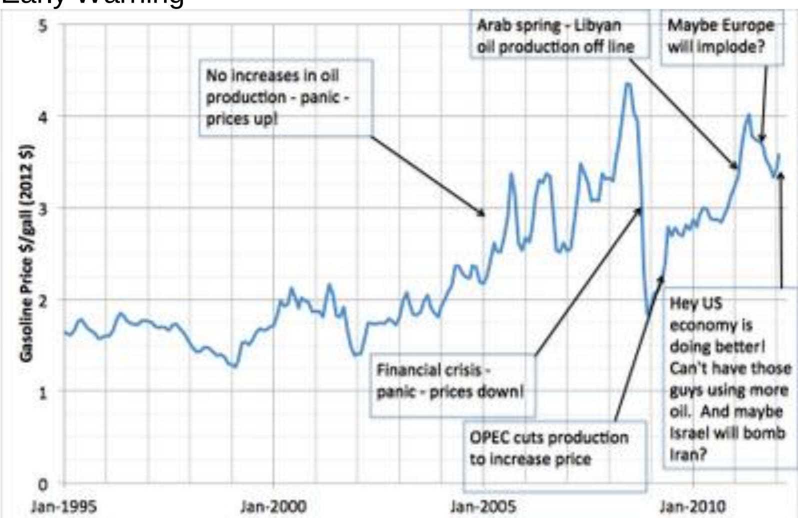
25. COLUMN-SANCTIONS RISK RERUN OF OIL'S 2011 FLASH CRASH: KEMP

By John Kemp

LONDON, Feb 27 (Reuters) - Soaring oil prices and the loss of exports from South Sudan, Syria and Iran pose awkward questions for investors and policymakers. Last year, a similar surge following the outbreak of the Libyan civil war eventually resulted in the flash crash on May 5 and the decision to release emergency stocks by the United States and other members of the International Energy Agency (IEA) on June 23. Investors and policymakers are being pressed to explain why the outcome this time will be different. The problem is that the circumstances are nearly identical. The IEA is struggling to explain why it made sense to release stocks following the Libyan outage but does not make sense to release them following the loss of production from South Sudan, Yemen and Syria, and the tightening stranglehold on Iran's exports. Investors cannot explain why the market will be better supported in 2012, following a rally which has left almost all hedge funds with large long positions, when last year's nearly identical rally set the market up for the largest one-day price drop on record.

[26. WHY ARE GAS PRICES HIGH?]

by Stuart Staniford
Early Warning



Gas prices are going up again, resulting in a lot of discussion by people who don't normally think about the oil markets, and therefore aren't necessarily that well informed about the subject. As a certified oil-obsessive these last seven years, I thought I'd put up a "cheat sheet" with just the key graphs that would allow you to understand the major forces that affect the behavior of gas prices over time.

[27. THE 'HIGH OIL PRICES = RECESSION' FALLACY]

ZeroHedge

Every time we see oil prices go up we hear that it will cause inflation and/or the economy will go into the tank. ... 7 out of the 8 postwar U.S. recessions had been preceded by a sharp increase in the price of crude petroleum. Iraq's invasion of Kuwait in August 1990 led to a doubling in the price of oil in the fall of 1990 and was followed by the ninth postwar recession in 1990-91. The price of oil more than doubled again in 1999-2000, with the tenth postwar recession coming in 2001. Yet another doubling in the price of oil in 2007-2008 accompanied the beginning of recession number 11, the most recent and frightening of the postwar economic downturns. So the count today stands at 10 out of 11, the sole exception being the mild recession of 1960-61 for which there was no preceding rise in oil prices. [Hamilton, 2009. Rv. 2010] The premise is wrong. What causes price inflation is an expansion of money supply (and a desire of people to spend it, often quickly). What causes recessions is malinvestment of capital caused, again, by money supply expansion.

Alternatives

28. CHEAPER BATTERY POWER HERALDS ELECTRIC CAR

WASHINGTON, Feb. 27 (UPI) -- Advances in longer-lasting lithium-ion batteries will make electric cars more affordable and easier to introduce on a large scale, a new study said. Envia Systems, which says it achieved world record energy density for lithium-ion batteries at half the price, outlined reasons that make affordable mass-market electric vehicles "dramatically closer to commercialization." The company says development of its proprietary lithium-ion batteries will slash the prices of 300-mile electric cars. "Envia has achieved world record energy density for lithium-ion batteries," the company said. The "unprecedented energy density, combined with the use of low-cost materials and manufacturing processes," cuts the cost of a vehicle's battery pack by more than 50 percent. The battery's performance was verified by the electrochemical power systems department at the Naval Surface Warfare Center, Envia said. The tests indicated the highest recorded energy density of 400 watt-hours per kilogram for a lithium-ion cell. Historically, lithium-ion battery energy densities have increased by about 5 percent per year, while Envia says that in the last two years it has nearly tripled the energy density of their battery cell to achieve the record.

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1. OIL SLIPS BELOW $124 ON DEMAND CONCERNS

By Claire Milhench
4:46am EST

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Front-month Brent was down 69 cents to $123.48 a barrel by 0925 GMT, after settling more than $1 lower on Monday. U.S. crude was down 10 cents at $108.46 a barrel.

Analysts and traders said that the rise in oil prices to near 10-month highs last week had led to worries about the impact on the struggling economies of Europe, especially as the euro remains weak against the dollar.

"There is some concern growing that high oil prices may impact the economy and oil demand in future," said Carsten Fritsch, an analyst at Commerzbank in Frankfurt.

"That is leading to profit-taking, which is not surprising given the huge build in speculative net long positions in recent weeks." He pointed to data from the CFTC showing that net long positions in U.S. crude futures had reached the highest levels since May 2011.

"Whilst the oil price acceleration has been a direct result of Iran tensions, a slowdown in rising tensions is a reason to take profits and assess," said Ben Taylor, a sales trader at CMC Markets. "Talk of demand destruction is also weighing on oil at these levels."

The surge in prices - an increase of more than 14 percent for Brent crude futures since the start of the year - has prompted the International Monetary Fund to flag oil as a rising threat to the global economy.

Brent will average $110.30 a barrel this year, according to a Reuters monthly oil poll, up from January's estimate of $107.30 due to fears of a loss of Iranian supplies. <O/POLL>

TIGHTER SUPPLY

Apart from Iran, oil markets are already coping with a disruption in shipments from smaller producers such as South Sudan and Syria.

More than 1 million barrels per day (bpd) of supply is estimated to be offline - 1.1 percent of daily world demand - including Libyan output yet to return after the virtual shutdown of its oil sector during its 2011 civil war.

"There are more upside risks than downside risks to oil prices because of supply concerns," said Victor Shum, senior partner at oil consultancy Purvin & Gertz.

Investors are worried that higher oil prices will hammer demand in the eurozone as it struggles to emerge from the sovereign debt crisis.

On Monday, ratings agency Standard & Poor's cut Greece's long-term ratings to 'selective default' in a widely expected move.

The European Central Bank (ECB) has also temporarily suspended the eligibility of Greek bonds for use as collateral in its funding operations.

The market is now looking to a second tranche of liquidity from the ECB on Wednesday as part of its Long-Term Refinancing Operation (LTRO).

Analysts and traders said the extra liquidity from the LTRO was helping to keep oil markets buoyant. "I don't see a sharp correction given the supply side risks and the huge amount of liquidity in the market," said Commerzbank's Fritsch.

The market is estimating that about 500 billion euros will be injected into the market by the ECB, but Fritsch said some estimates ranged up to 1 trillion euros. "If some of that money flows into commodity markets, that will push up prices," he said.

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By Grant Smith and Ben Sharples

Bloomberg
Feb 28, 2012

Oil dropped for a second day in London on growing speculation that demand may be curbed by a rally that has driven prices to a nine-month high.

Brent futures slid as much as 0.7 percent after falling for the first time in six days yesterday. Demand for oil may deteriorate after London-traded Brent rose to a record high when priced in euros and pounds, according to Morgan Stanley. U.S. supplies probably rose to the highest level in five months last week, a Bloomberg News survey showed before a report from the Energy Department tomorrow.

"We do not see sustained gains from here, and the market is likely to pause," said Andrey Kryuchenkov, an analyst at VTB Capital in London who predicts that prices will remain little changed this week. "The market has been overbought lately, with a substantial geopolitical risk premium in London, due to ongoing jitters over Iran's controversial nuclear program."

Brent oil for April settlement fell as much as 92 cents to $123.25 a barrel on the ICE Futures Europe exchange in London. Prices have advanced 15 percent this year on concern the west's dispute with Iran over the Islamic republic's atomic research may lead to a disruption in exports from the Middle East.

Oil for April delivery on the New York Mercantile Exchange fell as much 72 cents to $107.84 a barrel in electronic trading and was at $108.47 a barrel at 9:21 a.m. London time. The contract yesterday slid 1.1 percent to $108.56, snapping the longest winning streak since January 2010. Prices rose 6.3 percent last week to the highest since May 3 and are up 10 percent this year.

Keystone XL

West Texas Intermediate narrowed its discount to Brent for a second day after TransCanada Corp. said it will proceed with building a $2.3 billion segment of the Keystone XL oil pipeline from Oklahoma to the Texas coast. The link will help relieve a supply bottleneck at the delivery point for WTI crude.

The European benchmark contract's premium to New York- traded WTI was at $15.07 a barrel. It reached a record of $27.88 on Oct. 14.

"U.S. demand is particularly weak," Michael McCarthy, a chief market strategist at CMC Markets Asia Pacific Pty, said by telephone today from Sydney. "West Texas and Brent contracts hit technical levels and so we saw some pullback. There's also concerns broadly in the market that oil prices at these levels will lead to demand destruction."

New York crude has fallen since Feb. 24, when the 14-day relative strength index for front-month contracts climbed to 76.9, according to data compiled by Bloomberg. A reading above 70 indicates futures have risen too quickly and further gains probably aren't sustainable. Today's 14-day RSI was at about 70.

Indian Rupees

Brent, the benchmark for more than half the world's crude, is also approaching an all-time high in Indian rupees and Brazilian reals. There may be no demand growth for oil this year as prices at current levels curb use in economies that are already slowing, Hussein Allidina, head of commodities research at Morgan Stanley in New York, said by telephone yesterday.

U.S. crude inventories probably rose 1.1 million barrels in the period ended Feb. 24, according to the median of eight analyst estimates in the Bloomberg News survey. Gasoline stockpiles probably increased 250,000 barrels while distillate supplies, a category that includes diesel and heating oil, may have declined 500,000 barrels, the survey showed.

The industry-funded American Petroleum Institute will release its inventory data today. The API collects stockpile information on a voluntary basis from operators of refineries, bulk terminals and pipelines. The government requires that reports be filed with the DOE for its weekly survey.

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3. OIL TANKERS SEEN FALLING 42% AS JAPAN WEAKENS MOST SINCE TSUNAMI: FREIGHT

By Rob Sheridan
Bloomberg
Feb 27, 2012

The largest drop in Japanese oil consumption since last year's earthquake and tsunami may cause tanker rates to plunge 42 percent next quarter, threatening the biggest rally in shares of shipping companies since 2005.

Demand in Japan, the second-largest destination for supertankers after China, will drop 19 percent in the second quarter from now, according to the International Energy Agency in Paris. Daily rates for the 1,000-foot-long ships will average $17,000, compared with $29,280 now, the median of nine analyst estimates compiled by Bloomberg show. Investors may profit by buying forward freight agreements, traded by brokers and used to bet on shipping costs, which anticipate $10,883.

The six-member Bloomberg Tanker Index (TANKER), including Frontline (FRO) Ltd., rallied 11 percent this year on prospects for daily crude demand to surpass 90 million barrels for the first time ever. That's masking the slump in Japanese consumption and the weakest annual gain in Chinese oil buying since at least 2006. Shipowners are relying on both nations to help curb a capacity glut as the fleet expands to a three-decade high.

"Owners need all the help they can get," said Erik Nikolai Stavseth, an analyst at Arctic Securities ASA in Oslo, whose recommendations on the shares of shipping companies returned 36 in percent in the past year. "Such a big decline in Japanese consumption is really negative because it is still such an essential source of demand."

Largest Shipbroker

Frontline (FRO), based in Hamilton, Bermuda, reported a fourth- quarter net loss of $343.7 million on Feb. 17 after reorganizing to withstand the worst rout in rates in 12 years. The most modern vessels and outstanding orders at shipyards were sold to a new entity called Frontline 2012 after the company said in November it risked running out of cash.

Just one of 27 analysts covering Frontline recommends buying the shares after they jumped 22 percent this year in Oslo trading. The stock will decline 34 percent to 20.53 kroner ($3.66) in the next 12 months, according to the average of 19 analyst estimates compiled by Bloomberg.

Rates for very large crude carriers, or VLCCs, fell 7 percent this year. They averaged $22,137 in 2011, the lowest level since 1999, according to data from London-based Clarkson Plc, the world's largest shipbroker. A decline to $18,000 may make tanker rates unprofitable once more after this quarter's gains. Frontline, until last month the biggest operator of the vessels, says it needs $23,900 to break even.

Crude rose 10 percent to $108.68 a barrel in New York this year amid mounting concern that international sanctions on Iran over its nuclear program will disrupt oil supply from the Middle East. Fewer cargoes from the world's biggest producing region would further weaken demand for tankers.

Cash Reserves

While the projected second-quarter average would still be unprofitable for many owners, it's better than several months last year. Rates were below that level from July to October, Clarkson data show. A measure of the combined losses of the members of the Bloomberg Tanker Index will narrow by 50 percent this year, according to analyst estimates compiled by Bloomberg.

China is taking steps to accelerate growth. The People's Bank of China said Feb. 18 lenders would need to set aside less cash for reserves, the second such easing in three months. Exports and imports fell for the first time in two years in January and new lending was the lowest for that month in five years, government data show.

Latin America

The IEA doesn't expect Japanese oil demand to return to the depths seen after last year's natural disaster, when consumption plunged 19 percent to 3.92 million barrels a day in the second quarter. This year's projection is for a 19 percent decline to 4.15 million barrels.

Japan's economy will expand 2.1 percent in the three months ending in June, compared with a 1.5 percent contraction a year earlier, the median of 18 economist estimates shows. The temblor and tsunami shut about 90 percent of Japanese nuclear capacity, leaving it more dependent on fossil fuels.

Global oil demand will rise 0.9 percent this year as gains in parts of Asia, Africa, Latin America and the Middle East exceed declines in North America and Europe, the IEA estimates. Seaborne trade in oil will swell 3.1 percent, Clarkson projects. That's still less than the 6.5 percent expansion it anticipates for the VLCC fleet.

The shipping industry has been contending with a capacity glut since 2009 as the biggest global economic contraction since World War II coincided with the start of the largest shipbuilding program in about four decades. Owners ordered more vessels in 2007 and 2008 when daily rates rose as high as $229,484, and those carriers are still leaving yards across Asia now.

Container Line

Outstanding orders for VLCCs equate to 12 percent of current capacity, with 21 new vessels being built, according to figures from Redhill, England-based IHS Fairplay Ltd. Each ship can haul about 2 million barrels of oil, more than France consumes in a day. The VLCC fleet already expanded 15 percent since the middle of 2008 to its biggest since 1982, with a combined carrying potential of 1.4 billion barrels of crude, or more than two months of U.S. demand, the data show.

There are similar gluts across the industry. The Baltic Dry Index, a measure of costs to haul coal and iron ore, fell 58 percent this year, according to the Baltic Exchange in London. A.P. Moeller-Maersk A/S (MAERSK), owner of the largest container line, said Feb. 17 it was cutting capacity from Asia to Europe, the second-biggest international trade route, after rates tumbled. About 90 percent of world trade goes by sea, the Round Table of International Shipping Associations estimates.

Energy Consumer

While the second quarter tends to be the weakest as refineries carry out maintenance, the projected drop this year would be the biggest since 2006, excluding the slump in Japanese oil demand caused by the earthquake and tsunami in March. Growth in the nation's economy will slow for at least three consecutive quarters from June, the median of as many as 18 economist estimates compiled by Bloomberg showed.

Compounding that will be weaker gains in China's net crude purchases, with state-owned China National Petroleum Corp. (CNPZ) anticipating a climb of 5.9 percent. China's economy, the world's biggest energy user, should grow 8.2 percent this year, the slowest pace since 1999, theInternational Monetary Fund forecast in January. Chinese refineries may be using 77 percent of capacity by May, 7 percentage points less than now, according to Oilchem.net, a Shandong, China-based researcher.

About 15 percent of laden VLCCs are bound for China at any one time, with about another 9 percent going to Japan, ship- tracking data compiled by Bloomberg show. The Asian countries' distance from producing regions in the Middle East and West Africa ties tankers up for longer relative to European destinations, increasing income for owners and reducing the number of available vessels.

Annual Loss

Teekay Corp. (TNK), located in Vancouver and up 6.7 percent in New York trading this year, and Hamilton, Bermuda-based Nordic American Tankers Ltd. (NAT), ahead 23 percent, have the biggest weightings in the Bloomberg Tanker Index. Neither company operates VLCCs. Each will report a third consecutive annual loss for this year, analyst estimates compiled by Bloomberg show.

"A big drop in demand from Japan and China would be a significant negative for oil shipping," said Marius Magelie, an analyst at ABG Sundal Collier in Oslo. "The market is already very, very challenging, because there are just too many vessels."

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4. IRAN MAY BE "STRUGGLING" WITH NEW NUCLEAR MACHINES

By Fredrik Dahl
Mon, Feb 27 2012

VIENNA (Reuters) - Iran is still relying on old technology to expand its nuclear program, in what may be a sign it is having difficulties developing modern machines that could speed up production of potential bomb material.

A report by the U.N. nuclear watchdog last week said Iran was significantly stepping up its uranium enrichment, a finding that sent oil prices higher on fears tensions between with the West could escalate into military conflict.

Israel has threatened to launch pre-emptive strikes to prevent Iran getting the bomb and Defense Minister Ehud Barak has said Tehran's continued technological progress mean it could soon pass into a "zone of immunity," suggesting time was running out for an effective military intervention.

But, contrary to some Western media reports in the run-up to Friday's International Atomic Energy Agency report, Iran does not yet seem ready to deploy advanced enrichment equipment for large-scale production, despite years of testing.

Instead, the IAEA document showed Iran was preparing to install thousands more centrifuges based on an erratic and outdated design, both in its main enrichment plant at Natanz and in a smaller facility at Fordow buried deep underground.

"It appears that they are still struggling with the advanced centrifuges," said Olli Heinonen, a former chief nuclear inspector for the Vienna-based U.N. agency.

"We do not know whether the reasons for delays are lack of raw materials or design problems," he said.

Iran says it is refining uranium to fuel a planned network of nuclear power plants so that it can export more of its oil and gas. The United States and its allies accuse it of a covert bid to acquire nuclear weapons capability.

Tehran often trumpets technical advances in its nuclear program, including the development of new centrifuges - machines that spin at supersonic speed to increase the concentration of the fissile material in uranium.

In mid-February, President Mahmoud Ahmadinejad said Iran now had a "fourth generation" centrifuge that could refine uranium three times faster than previously.

"Iran unveiled a third-generation model two years ago and then never said more about it," said Mark Fitzpatrick of the International Institute for Strategic Studies think tank.

"Now it says it has a fourth-generation model, which is probably a variation of the problematic second-generation machines."

MILLION DOLLAR QUESTION

The IAEA, which regularly inspects Iran's declared nuclear sites, has little access to facilities where centrifuges are assembled and the agency's knowledge of possible centrifuge progress is mainly limited to what it can observe at Natanz.

Asked whether Iran may keep more advanced centrifuges at a location which U.N. inspectors were not aware of, an official familiar with the issue said: "That is, of course, the million dollar question."

If Iran eventually succeeded in introducing the newer models for production, it could significantly shorten the time needed to stockpile enriched uranium, which can generate electricity or, if processed much further, nuclear explosions.

But it is unclear whether Tehran, subject to increasingly strict international sanctions, has the means and components to make the more sophisticated machines in bigger numbers.

"Iran has been testing its second-generation models for several years but they do not appear to be ready for full-scale use yet," said analyst Peter Crail of the Arms Control Association, a Washington-based research and advocacy group.

"Iran's ability to mass produce them is also uncertain."

The U.N. Security Council has long called on Iran to suspend uranium enrichment and Tehran's failure to comply has earned it four rounds of sanctions, as well much tougher U.S. and European Union measures that take direct aim at its biggest export, oil.

Western experts say Iran's stockpile of low-enriched uranium could be enough for about four atomic bombs if refined much more, should the Iranian leadership decide to do so.

"CRACK THE CODE"

Iran has for years been trying to develop centrifuges with several times the capacity of the 1970s-vintage, IR-1 version it now uses for the most sensitive part of its atomic activities.

Marking a potential step forward, Iran last year started installing larger numbers of more modern IR-4 and IR-2m models for testing at a research and development site at the enrichment facility near the central town of Natanz.

But last week's IAEA report suggested Iran was encountering problems testing them in interlinked networks known as cascades, said David Albright of the Institute for Science and International Security (ISIS) think tank.

"The testing of advanced-centrifuge production-scale cascades ... is going far more slowly than expected," he said in an analysis. Iran's "advanced centrifuge program appears troubled," the ISIS report added.

The IAEA said Iran had informed it in early February of plans to install three new types of centrifuge - IR-5, IR-6 and IR-6s - as single machines at the Natanz R&D site.

When so many models are tested simultaneously, "it indicates that Iran has not yet reached a point where it can decide which would be the next generation centrifuge to be deployed," Heinonen, now at Harvard University's Belfer Center for Science and International Affairs, said.

Fitzpatrick said: "Sooner or later Iran will probably crack the code on advanced centrifuges and introduce them in larger numbers, but so far that hasn't been possible."

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5. IRAN 'INTENSIFIED CLAMPDOWN' AHEAD OF VOTE

Amnesty says government has increased "wave of arrests" in attempt to curb free speech before assembly elections.

Al Jazeera

With their leaders under de-facto house arrest, the reformists remain virtually absent from the March 2 vote [Reuters]

Iran has “dramatically” escalated its crackdown on freedom of expression ahead of this week's parliamentary election, Amnesty International said in a report published on Tuesday.

The report entitled "We are ordered to crush you: Expanding Repression of Dissent in Iran" details repressive acts by the Iranian authorities since February 2011, including a recent wave of arrests.

The arrests, Amnesty said, have targeted lawyers, students, journalists, political activists and their relatives, as well as religious and ethnic minorities, film-makers and people with international connections, particularly to media.

"In Iran today you put yourself at risk if you do anything that might fall outside the increasingly narrow confines of what the authorities deem socially or politically acceptable," said Ann Harrison, interim deputy director of Amnesty's Middle East and North Africa programme.

"Anything from setting up a social group on the Internet, forming or joining an NGO, or expressing your opposition to the status quo can land you in prison," she said.

Opposition leaders Mir Hossein Mousavi and Mehdi Karroubi, who were defeated in the controversial presidential elections in 2009, have been under de facto house arrest since February 2011.

"This dreadful record really highlights the hypocrisy of the Iranian government's attempts to show solidarity with protesters in Egypt, Bahrain and other countries in the region," Amnesty said.

'Enemy propaganda'

The crackdown has particularly worsened in the run-up to parliamentary elections due to take place on March 2, Amnesty said.

Iran's authorities, including Supreme Leader Ayatollah Ali Khamenei, have repeatedly called on security forces to be vigilant against “enemy threats” in the period leading up to the vote.

“The enemy's propaganda machines and the media of arrogant circles have begun an extensive effort so that the assembly election is without splendour," the 72-year-old leader said recently.

"But all should know that the people's participation in the elections will take the country forward … an election full of excitement will be a major blow to the enemy."

The clampdown has targeted electronic media, seen by the authorities as a major threat, Amnesty said, adding that attacks on dissenting views come against a backdrop of a worsening overall human rights situation in Iran, including public executions used to strike fear into society.

Amnesty called on the global community "not to allow tensions over Iran's nuclear programme or events in the wider region to distract it from pressing Iran to live up to its human rights obligations."

"For Iranians facing this level of repression, it can be dispiriting that discussions about their country in diplomatic circles can seem to focus mainly on the nuclear programme at the expense of human rights," said Harrison.

Iranians vote in parliamentary elections on Friday in the first national poll since the controversial 2009 re-election of President Mahmoud Ahmadinejad.

A total of 3,444 vetted candidates are vying for the 290 seats in the parliament, the Islamic Consultative Assembly, to be decided by an electorate of 48 million voters.

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6. ITALY'S SARAS: IRAN OIL STEADY AT 10% OF SUPPLY

LONDON (Dow Jones)--Italian refiner Saras SpA (SRS.MI) said Tuesday it is keeping Iran oil imports relatively steady at 10% of its supply for now, despite a full European Union embargo due July 1.

The disclosure by Italy's second-largest independent refiner by capacity contrasts with an announcement by France's Total SA (TOT) that it stopped buying oil from the Islamic Republic.

In remarks in its fourth quarter and annual results, Saras said it "currently uses approximately 10% of Iranian crude oils in its refinery mix."

Many refiners are locked in long-term contracts with Iran, making it difficult to reduce supplies before the embargo starts.

But the Italian refiner said it "will take all necessary actions in order to leverage its commercial flexibility and procure alternative crude oils" when the ban is fully enforced.

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7. IRAN HALTS CRUDE OIL SHIPMENT FOR GREECE

TEHRAN, Feb. 27 (UPI) -- Following a decision to halt oil sales to Britain and France, Iran said it refrained from loading a Greek oil tanker with around 500,000 barrels of crude oil.

The semiofficial Fars News Agency said it learned that a Greek tanker returned to port empty after Iran refrained from loading its cargo for the financially troubled country.

The report notes other oil-rich countries have refrained from dealing with Greece.

"Greece would be particularly affected by oil sanctions as other exporters have refused to deal with Greek traders," the FNA report stated.

Iran's decision last week to halt crude oil exports to the United Kingdom and France sent oil prices to nine-month highs. The European Union set a July 1 deadline for an Iranian crude oil embargo, though Iranian lawmakers voted to pre-empt the EU move.

Tehran summoned many of its European envoys to protest what it said was an unfair response to what it describes as a peaceful nuclear program. U.N. inspectors last week expressed frustration regarding cooperation following their most recent visit to Iran.

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8. TURKEY HOLDING TALKS ON DIVERSIFYING ENERGY SUPPLY - ENERGY MIN

- -Turkey looking to diversify energy supplies
- -Turkey still gets 30% of its oil from Iran; among the Islamic Republic's top crude consumers
- -Trade between Ankara and Tehran fell 65% in January

ISTANBUL (Dow Jones)--Turkey is holding talks with a number of countries, including Saudi Arabia and Libya, as it looks to diversify its energy supplies, while Ankara will import natural gas from "new countries" this year, Energy Minister Taner Yildiz said Tuesday.

Speaking in an interview with Turkish broadcast CNBC-e, Yildiz insisted that the talks weren't part of a plan to reduce energy purchases from Iran, which is subject to international sanctions from the US and European Union aimed at forcing Tehran to halt its nuclear program.

But the minister's comments also come amid the increasingly divergent interests of Sunni Turkey and Shiite Iran in the wake of the US drawdown from Iraq and the Arab Spring. That divergence is most clearly manifested in Syria, where Tehran supports the minority Shia regime of President Assad, while Ankara is offering help to refugees and the majority Sunni opposition.

Turkey's Foreign Minister Ahmet Davutoglu warned on the eve of a visit to Tehran in January against the risk of a "Cold War" developing between Shiites and Sunnis across the Middle East.

Turkey gets 30% of its oil from Iran and is among the Islamic Republic's top consumers of crude, at just over 200,000 barrels a day. Turkey has come under pressure from Washington and Brussels to halt its purchases of Iranian energy. Yildiz reiterated Tuesday that Ankara is only bound by United Nations sanctions on Iran, not the more prohibitive US or E.U. unilateral sanctions.

Yildiz repeated the government line Tuesday that there is no obligation for Turkey to enforce the tougher sanctions outlined by Washington and Brussels, and would continue to buy Iranian oil and gas.

Turkey's insistence on buying Iranian oil hasn't kept sanctions from hurting bilateral trade between Ankara and Tehran. Trade between the neighbors, which surged twelve-fold in the past decade amid growing diplomatic ties, plunged 65% in January alone. Most Turkish banks have stopped processing payments for Iranian customers, while the number of Iranian visitors to Turkey dropped 85%, according to travel agents in Istanbul.

Yildiz also said fast-rising oil prices are a crucial issue for Turkey's economy and Ankara would now revise up its end-of-year oil price forecast, underlining the government's concern that rising energy costs could magnify the economy's imbalances.

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9. JAPAN ASKS EU ABOUT IMPLICATION OF IRAN SANCTIONS ON SHIPPING INSURANCE

Platts
February 28, 2012

The Japanese government has asked the European Union about the implications of its sanctions against Iran for non-EU states as Japanese shipowners could see their insurance cover for voyages to Iran drop dramatically when the sanctions come into effect July 1, sources close to the matter told Platts Tuesday.

Japan has asked the EU for details as Brussels finalizes regulations to bring the sanctions agreed January 23 into effect, the sources said.

Japan's Foreign Ministry, Ministry of Land, Infrastructure, Transport and Tourism, and Ministry of Economy, Trade and Industry are working together to ask the EU and clarify a potentially "major issue," one source said.

In response, Brussels has told Tokyo that the EU is still working on the regulations, the sources added.

While the EU ban on import and transportation of Iranian crude does not directly affect Iran's Asian customers, a provision in the sanctions legislation agreed January 23 is having an impact far beyond European shores.

The provision in question states: "It shall be prohibited to provide, directly or indirectly, financing or financial assistance, including financial derivatives, as well as insurance and reinsurance, related to the import, purchase, or transport of Iranian crude oil and petroleum products."

Under current international arrangements, Japanese shipowners can obtain insurance cover of up to $1 billion for an incident such as an oil spill, an official at the Japan Ship Owners' Mutual Protection & Indemnity Association told Platts on February 24.

But this cover will drop to $8 million, the maximum the Japan P&I Club -- which is part of the Japan Ship Owners' Mutual Protection & Indemnity Association -- will be able to guarantee, when the EU ban takes effect, the official said.

And as there are pooling arrangements for reinsurance between the various Protection and Indemnity clubs around the world, the sanctions will have an impact on non-EU shipping as well. The EU sanctions not only ban the import and transportation of Iranian oil but also ban insurance cover for vessels.

A large number of Japanese-owned crude tankers have insurance cover provided by the Japan P&I Club, which is also a member of the International Group, an association of 13 member clubs that provide liability cover for close to 90% of the world's shipping tonnage.

Charterer and shipowner sources said that tanker operators with protection and indemnity insurance cover from mutual clubs based in Europe are not accepting crude cargoes loading from Iran, despite being offered a premium to standard rates.

The P&I clubs provide insurance cover for broad, indeterminate risks such as third-party liabilities, which include a carrier's liability to the owner of a cargo for damage to the cargo, the liability of a ship after a collision, environmental pollution and war risk insurance.

Shipowners and operators such as Nova Tankers, Maersk Tankers, Frontline and OSG, all of which have large fleets, are already avoiding Iran.

An alternative for Asian tanker charterers is to look for vessels with insurance cover offered by non-EU regulated groups like the Japan P&I Club, sources said.

The EU ban on the import and transportation of Iranian crude does not come into effect until July 1, which gives companies with existing contracts several months to phase them out and find alternative supplies.

The total number of VLCCs, which can carry up to 2 million barrels of crude each, owned by Japanese shipowners is 102, and includes 40 tankers belonging to the Nippon Yusen Kaisha, or NYK, Group, 39 to the Mitsui OSK Lines, and eight Kawasaki Kisen or KLINE supertankers.

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10. EXXON CONFIRMS IRAQI OIL DEAL

HOUSTON, Feb. 28 (UPI) -- U.S. supermajor Exxon Mobil revealed it landed oil exploration and production contracts with leaders in Iraq's semiautonomous Kurdish region last year.

Exxon, in a filing with the U.S. Securities and Exchange Commission, said it has a five-year exploration deal and a 20-year production agreement with the Kurdistan Regional Government.

"Exploration and production activities in the Kurdistan region of Iraq are governed by production sharing contracts negotiated with the regional government of Kurdistan in 2011," the filing was quoted by The Wall Street Journal as reading.

Baghdad has expressed frustration with energy deals between the KRG and international companies like Exxon.

In May, Iraq is expected to put around a dozen oil and natural gas blocks up for auction in its fourth licensing round. Exxon was blacklisted, however, because of contracts with the Kurdish administration.

Iraq has yet to pass comprehensive legislation that would regulate the energy sector. Baghdad says unilateral deals with the KRG are illegal.

The International Energy Agency has warned political instability in post-war Iraq could spill over to the energy sector.
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11. SUDAN DENIES "CONFISCATING" INDEPENDENT SOUTH'S OIL

By Sui-Lee Wee
5:19am EST

BEIJING (Reuters) - Sudan denounced suggestions that it was confiscating oil from South Sudan on Tuesday and indicated that the newly independent South was responsible for stonewalling an oil deal between the two nations.

South Sudan became Africa's newest nation in July under a 2005 peace deal that ended decades of civil war, but many issues remain unresolved, including oil, debt and violence on both sides of the poorly defined border.

Tension escalated in January after Khartoum began taking oil from its landlocked southern neighbor, which exports its crude through Sudan's pipelines to a port on the Red Sea.

South Sudan shut down its entire oil production of 350,000 barrels a day in protest.

Sudan Foreign Minister Ali Ahmed Karti denied "confiscating" the oil, saying the South had used Sudan's facilities, equipment and ports without "paying a penny".

"This is not the right word to be used here," he told reporters. "We are not confiscating anything. Think of that, we gave everything. We gave the secession of the south, we helped everything. We gave them, according to the agreement, the whole facilities and oil within that territory.

"You can use your own Western intelligence to know to whom I sold my oil," he said. "This is my oil."

"SOMETIMES THEY NEVER SHOW UP"

Karti said the African Union held the key to solving the oil impasse and invited China National Petroleum Corp, Malaysia's Petronas and India to help mediate.

The African Union sponsored talks between Khartoum and Juba in January. The two sides were meant to conclude an oil agreement that would have both sides sharing revenues, with the South paying fees to export its oil through Sudan.

Having failed to reach an agreement on transit fees, Khartoum started seizing South Sudan's oil and has sold at least some of it, industry sources have told Reuters.

Talks are expected to resume in early March but diplomats say it is hard to envision a mutually acceptable compromise.

"Sometimes they never show up," Karti said, referring to the South's representatives. "Sometimes they show up at the meetings and the mediator did not find any kind of assistance from their side. Sometimes they do not deliver anything."

Diplomats say China, the biggest investor of oil facilities in both countries, has the best chance of brokering a deal. Beijing sent an envoy to both nations in December to help bridge differences.

Karti said he had assured China that Sudan would safeguard Chinese workers and investments, weeks after the kidnapping of 29 Chinese workers in the main oil-producing state of South Kordofan where Khartoum has been fighting insurgents.

Most Western firms have shunned Sudan since it was indicted by the International Criminal Court in the Hague for war crimes and genocide. China, having maintained close ties throughout a U.S. trade embargo and acted as Khartoum's top arms supplier, opposes the indictment.

Sudan was also the sixth-largest source of Chinese oil imports in 2011 and the tricky transit and pipeline arrangement gives Beijing an incentive to promote good relations between the two Sudans. In December, it sent an envoy to both nations to help bridge differences.

Chinese Vice President Xi Jinping told Karti China was "worried" about the escalating tensions between Sudan and South Sudan, adding that he hopes both countries will "properly handle the dispute at an early date," Foreign Ministry spokesman Hong Lei told reporters.

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12. VENEZUELA TO CONTINUE SUPPLYING OIL TO SYRIA AS SANCTIONS INTENSIFY

By Nathan Crooks and Jose Orozco
Bloomberg
Feb 27, 2012

Venezuela said it will continue to ship fuel to Syria, even as Europe extended sanctions on the Middle East nation for using military force to quell civilian dissent against President Bashar al-Assad's government.

"We have sent Syria two cargoes of diesel, and shipments will continue as they are needed," Venezuela's Oil Minister Rafael Ramirez said yesterday, without providing more details. "We have a high degree of friendship and cooperation with Syria, a country under siege."

European Union governments tightened sanctions on Syria yesterday by freezing the assets of the country's central bank and forbidding Syrian cargo-only flights. Last year, the U.S. imposed sanctions on Petroleos de Venezuela SA for delivering at least two cargoes of a gasoline additive to Iran between December 2010 and March 2011.

PDVSA isn't prohibited from shipping oil to Syria under current sanctions, Ramirez, also the president of the state oil company, said in Caracas where he signed loans with China.

Syria, with a refining capacity of about 240,000 barrels a day, faces shortages of gasoil and diesel, according to the U.S. Energy Information Administration. The country had net petroleum exports of about 109,000 barrels a day in 2010, the EIA said. Diesel is typically shipped in oil-product tankers of as much as 159,000 deadweight tons.

The Syrian army has intensified attacks since a resolution supported by the Arab League aimed at installing a transitional government, to be followed by elections, was vetoed at the United Nations Security Council by Russia and China on Feb. 4.

Al-Assad's government said yesterday that voters had backed a referendum designed to introduce political pluralism, following almost a year of violence. EU politicians dismissed the validity of the poll.

China Loans

Venezuela and China signed $10 billion in agreements yesterday to finance oil, infrastructure and agricultural projects, Ramirez said. The countries also renewed a joint economic development fund for $4 billion, he said.

China Development Bank Corp. (SDBZ) will lend $4 billion to Petrosinovensa, a venture between PDVSA and the China National Petroleum Corp. (CNPZ), to boost oil production in the Orinoco belt to 330,000 barrels a day from 120,000 by 2014, Ramirez said.

The Venezuelan state oil producer will get a $500 million credit line from China Development Bank to pay for drilling rigs and other equipment, Ramirez told reporters. PDVSA has no plans to sell bonds this quarter, according to Ramirez.

Citic Group

PDVSA will also get a loan of $1.5 billion from Industrial & Commercial Bank of China (601398) for housing to be built by Citic Group Corp., China's biggest state-owned investment company, Ramirez said.

PDVSA agreed to transfer 10 percent of the Petropiar venture in the Orinoco heavy crude belt to Citic Group as well as a stake in the Las Cristinas gold mine. Chevron Corp. (CVX), the second-largest U.S. energy company, owns a 30 percent share in Petropiar.

"PDVSA has 70 percent of Petropiar, and we are offering Citic 10 percent from our share," said Ramirez. "We are currently setting a price and the financial mechanism to pay for their participation apart from financing to increase current production of around 180,000 barrels a day."

Margarita Arango, a Caracas-based spokeswoman for Chevron, yesterday declined to comment on Citic's entrance into Petropiar.

Venezuela is in talks to give Citic a 20 percent stake in Las Cristinas and wants to use Chinese technology and an investment of $500 million to develop infrastructure at the gold mine, said Ramirez.

President Hugo Chavez gave PDVSA the authority to mine for gold on Aug. 23 after he nationalized the industry. Venezuela took control of the Las Cristinas mine, which may hold 27 million ounces of reserves, in February last year after canceling a license held by Crystallex International Corp. (CRYXF), a Canadian gold producer.

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13. JAPAN WEIGHED EVACUATING TOKYO IN NUCLEAR CRISIS

By Martin Fackler
The New York Times

TOKYO - In the darkest moments of last year's nuclear accident, Japanese leaders did not know the actual extent of damage at the plant and secretly considered the possibility of evacuating Tokyo, even as they tried to play down the risks in public, an independent investigation into the accident disclosed on Monday.

The investigation by the Rebuild Japan Initiative Foundation, a new private policy organization, offers one of the most vivid accounts yet of how Japan teetered on the edge of an even larger nuclear crisis than the one that engulfed the Fukushima Daiichi Nuclear Power Plant. A team of 30 university professors, lawyers and journalists spent more than six months on the inquiry into Japan's response to the triple meltdown at the plant, which followed a powerful earthquake and tsunami on March 11 that shut down the plant's cooling systems.

The team interviewed more than 300 people, including top nuclear regulators and government officials, as well as the prime minister during the crisis, Naoto Kan. They were granted extraordinary access, in part because of a strong public demand for greater accountability and because the organization's founder, Yoichi Funabashi, a former editor in chief of the daily newspaper Asahi Shimbun, is one of Japan's most respected public intellectuals.

An advance copy of the report describes how Japan's response was hindered at times by a debilitating breakdown in trust between the major actors: Mr. Kan; the Tokyo headquarters of the plant's operator, Tokyo Electric Power, known as Tepco; and the manager at the stricken plant. The conflicts produced confused flows of sometimes contradictory information in the early days of the crisis, the report said.

It describes frantic phone calls by the manager, Masao Yoshida, to top officials in the Kan government arguing that he could get the plant under control if he could keep his staff in place, while at the same time ignoring orders from Tepco's headquarters not to use sea water to cool the overheating reactors. By contrast, Mr. Funabashi said in an interview, Tepco's president, Masataka Shimizu, was making competing calls to the prime minister's office saying that the company should evacuate all of its staff, a step that could have been catastrophic.

The 400-page report, due to be released later this week, also describes a darkening mood at the prime minister's residence as a series of hydrogen explosions rocked the plant on March 14 and 15. It says Mr. Kan and other officials began discussing a worst-case outcome if workers at the Fukushima Daiichi plant were evacuated. This would have allowed the plant to spiral out of control, releasing even larger amounts of radioactive material into the atmosphere that would in turn force the evacuation of other nearby nuclear plants, causing further meltdowns.

The report quotes the chief cabinet secretary at the time, Yukio Edano, as having warned that such a "demonic chain reaction" of plant meltdowns could result in the evacuation of Tokyo, 150 miles to the south.

"We would lose Fukushima Daini, then we would lose Tokai," Mr. Edano is quoted as saying, naming two other nuclear plants. "If that happened, it was only logical to conclude that we would also lose Tokyo itself."

The report also describes the panic within the Kan administration at the prospect of large radiation releases from the more than 10,000 spent fuel rods that were stored in relatively unprotected pools near the damaged reactors. The report says it was not until five days after the earthquake that a Japanese military helicopter was finally able to confirm that the pool deemed at highest risk, near the No. 4 reactor, was still safely filled with water.

"We barely avoided the worst-case scenario, though the public didn't know it at the time," Mr. Funabashi, the foundation founder, said.

Mr. Funabashi blamed the Kan administration's fear of setting off a panic for its decision to understate the true dangers of the accident. He said the Japanese government hid its most alarming assessments not just from its own public but also from allies like the United States. Mr. Funabashi said the investigation revealed "how precarious the U.S.-Japan relationship was" in the early days of the crisis, until the two nations began daily informational meetings at the prime minister's residence on March 22.

The report seems to confirm the suspicions of nuclear experts in the United States - inside and outside the government - that the Japanese government was not being forthcoming about the full dangers posed by the stricken Fukushima plant. But it also shows that the United States government occasionally overreacted and inflated the risks, such as when American officials mistakenly warned that the spent fuel rods in the pool near unit No. 4 were exposed to the air and vulnerable to melting down and releasing huge amounts of radiation.

Still, Mr. Funabashi said, it was the Japanese government's failure to warn its people of the dangers and the widespread distrust it bred in the government that spurred him to undertake an independent investigation. Such outside investigations have been rare in Japan, where the public has tended to accept official versions of events.

He said his group's findings conflicted with those of the government's own investigation into the accident, which were released in an interim report in December. A big difference involved one of the most crucial moments of the nuclear crisis, when the prime minister, Mr. Kan, marched into Tepco's headquarters early on the morning of March 15 upon hearing that the company wanted to withdraw its employees from the wrecked nuclear plant.

The government's investigation sided with Tepco by saying that Mr. Kan, a former social activist who often clashed with Japan's establishment, had simply misunderstood the company, which wanted to withdraw only a portion of its staff. Mr. Funabashi said his foundation's investigators had interviewed most of the people involved - except executives at Tepco, which refused to cooperate - and found that the company had in fact said it wanted a total pullout.

He credited Mr. Kan with making the right decision in forcing Tepco not to abandon the plant.

"Prime Minister Kan had his minuses and he had his lapses," Mr. Funabashi said, "but his decision to storm into Tepco and demand that it not give up saved Japan."

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14. JAPAN CITIES PRESS UTILITY TO SWITCH FROM NUCLEAR

- Mayors say no utility should depend on single energy source
- Only two of 54 reactors on stream a year after nuclear disaster
- Government wants some units restarted to cope with summer demand

By Risa Maeda

TOKYO, Feb 27 (Reuters) - Three of Japan's major cities called for Kansai Electric Power Co, its second largest nuclear generator, to draw up a plan to switch to other energy sources nearly a year after the country suffered the world's worst nuclear accident in 25 years.

The mayors of Osaka, Kobe and Kyoto, home to a total of 5.7 million people, on Monday submitted questions on prospects for alternative energy supplies and price incentives to curb demand.

The cities hold a total 12 percent stake in Kansai. Nuclear power accounted for 44 percent of demand in Kansai's base in western Japan in the year to March 2011 -- making it the country's most nuclear-dependent utility.

Only two of Japan's 54 nuclear reactors are on stream after an earthquake and tsunami crippled the Fukushima Daiichi plant, run by Tokyo Electric Power Co., or Tepco, the largest nuclear operator.

Many are stopped for regular maintenance and must undergo "stress tests" before they are restarted.

The mayors also expressed concern about the vulnerability of any utility relying on a single power source. Tepco had to introduce rolling blackouts after last March's disaster and imposed power saving measures on large users.

"In light of the March 11 incident at the Fukushima Daiichi nuclear plant...should a critical incident hit Kansai Electric Power Co's region...it is clear that citizens' lives and economic activities would be greatly affected," the mayors said in their submission to Kansai Electric's president, Makoto Yagi.

"We should therefore create a power supply system not dependent on nuclear power as early as possible."

The mayors' move could prompt other shareholders to follow suit.

A government official in Osaka, whose Mayor Toru Hashimoto has become increasingly forthright in opposing nuclear power, said the cities sought a reply by March 15. They would then decide on making a proposal to a general shareholder meeting.

Japan has abandoned a 2010 plan to boost the share of nuclear power to more than 50 percent of demand by 2030 as authorities debate the future role of atomic energy.

The central government is, however, keen to get some reactors running again to avoid a potentially damaging power shortage during periods of high demand in the summer.

Kansai Electric wants to restart at least two of its 11 reactors, now all offline, after the nuclear watchdog this month said the units "passed" stress tests - computer simulations evaluating reactions to severe events.

Local governments must also give their clearance for what would be the first reactors to restart since the disaster. Tests on 14 reactors run by eight utilities are under review.

Without approval for restarts, all reactors could be shut by early May, boosting the use of fossil fuels and adding over $30 billion a year to energy costs, according to the government.

Opinion polls last year showed about three-quarters of the public want at least a gradual exit from nuclear power. Osaka activists are seeking a referendum on scrapping atomic power, though enthusiasm for campaigning overall appears to be waning.

One survey by Nikkei electronic media this month showed 48 percent support for the restart of reactors to meet short-term needs. (Editing by Ron Popeski and Anthony Barker)

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15. INSIGHT: CONFLICT LOOMS IN SOUTH CHINA SEA OIL RUSH

By Randy Fabi and Manuel Mogato
Mon, Feb 27 2012

PUERTO PRINCESA, Philippines (Reuters) - When Lieutenant-General Juancho Sabban received an urgent phone call from an oil company saying two Chinese vessels were threatening to ram their survey ship, the Philippine commander's message was clear: don't move, we will come to the rescue.

Within hours, a Philippine surveillance plane, patrol ships and light attack aircraft arrived in the disputed area of Reed Bank in the South China Sea. By then the Chinese boats had left after chasing away the survey ship, Veritas Voyager, hired by U.K.-based Forum Energy Plc.

But the tension had become so great Forum Energy chief Ray Apostol wanted to halt two months of work in the area.

"They were so close to finishing their work. I told them to stay and finish the job," Sabban, who heads the Western Command of the Philippine Armed Forces, told Reuters at his headquarters in Puerto Princesa on Palawan island.

Over the next few days, President Benigno Aquino would call an emergency cabinet meeting, file a formal protest with China, and send his defense secretary and armed forces chief to the Western Command in a show of strength.

The March 2011 incident is considered a turning point for the Aquino administration. The president hardened his stance on sovereignty rights, sought closer ties with Washington and has quickened efforts to modernize its military.

A year later, Forum Energy is planning to return. Top company executives told Reuters the company intends to sail to Reed Bank within months to drill the area's first well for oil and natural gas in decades, an event that could spark a military crisis for Aquino if China responds more aggressively.

The U.S. military has also signalled its return to the area, with war games scheduled in March with the Philippine navy near Reed Bank that China is bound to view as provocative.

"This will be a litmus test of where China stands on the South China Sea issue," said Ian Storey, a fellow at the Singapore Institute of Southeast Asian Studies. "They could adopt the same tactics as they did last year and harass the drilling vessels, or they might even take a stronger line against them and send in warships."

A decades-old territorial squabble over the South China Sea is entering a new and more contentious chapter, as claimant nations search deeper into disputed waters for energy supplies while building up their navies and military alliances with other nations, particularly with the United States.

Reed Bank, claimed by both China and the Philippines, is just one of several possible flashpoints in the South China Sea that could force Washington to intervene in defense of its Southeast Asian allies.

OBAMA PIVOT

President Barack Obama has sought to reassure regional allies that Washington would serve as a counterbalance to a newly assertive China, part of his campaign to "pivot" U.S. foreign policy more intensely on Asia after a decade of war in Iraq and Afghanistan.

Obama brought up the South China Sea at an Asia-Pacific summit in Bali last November, and had a surprise one-one-one with Chinese Premier Wen Jiabao on the subject, although Beijing had insisted the issue should not be on the agenda at all.

"As Southeast Asian nations run to the U.S. for assistance, Beijing increasingly fears that America aims to encircle China militarily and diplomatically," said Stephanie Kleine-Ahlbrandt, Northeast Asia Director for the International Crisis Group. "Underlying all of these concerns is the potential that discoveries of oil and natural gas beneath the disputed sections of the South China Sea could fuel conflict."

The area is thought to hold vast untapped reserves of oil and natural gas that could potentially place China, the Philippines, Vietnam and other claimant nations alongside the likes of Saudi Arabia, Russia and Qatar.

Manila is beefing up its tiny and outdated naval fleet and military bases, adding at least two Hamilton-class cutters this year and earmarking millions of dollars to expand its Ulugan Bay naval base in Palawan.

It's no match for China's fleet, the largest in Asia, which boasts 62 submarines, 13 destroyers and 65 frigates, according to the International Institute for Strategic Studies.

China last month launched the fourth of its new 071 amphibious landing ships that are designed to quickly insert troops to trouble spots, disputed islands, for example.

The U.S. Navy has announced it will deploy its own new amphibious assault vessels, the Littoral Combat Ships, to the "maritime crossroads" of the Asia-Pacific theater, stationing them in Singapore and perhaps the Philippines.

Washington's renewed presence in the Philippines, a former U.S. colony that voted to remove American naval and air bases 20 years ago, follows the U.S. announcement last year of plans to set up a Marine base in northern Australia and possibly station warships in Singapore.

Manila is talking about giving Washington more access to its ports and airfields to re-fuel and service U.S. warships and planes. The two countries will conduct war games off Palawan island in late March -- focusing on how to deal with a takeover of an oil rig in the South China Sea.

'SOUNDS OF CANNONS'

China has warned oil companies not to explore in the disputed South China Sea, over which Beijing says it has "indisputable sovereignty." Chinese ships have repeatedly harassed vessels that have tried.

After ExxonMobil discovered hydrocarbons off the coast of Danang in central Vietnam, an area also claimed by China, one of China's most popular newspapers warned in October that nations involved in territorial disputes should "mentally prepare for the sounds of cannons" if they remain at loggerheads with Beijing.

Despite the threats, the Philippines and Vietnam have continued to explore for oil and natural gas further offshore in the South China waters, driven by persistently high oil prices and more advanced deep-sea technology.

The Philippines has reported as many as 12 incidents of Chinese vessels intruding into its sovereign waters in the past year, an unusually high number, Sabban said.

In one of the most serious incidents last October, a Philippine navy ship seized Chinese fishing boats after colliding with one of them, prompting protests from China for their return.

At least 12 Chinese fishermen have been arrested over the past year. Half of them remain in detention in Palawan.

"China has no right to tell us that we should first ask for permission from them to explore the area," Sabban said. "We have explored that area back in the 1970s, so why can't we explore it now? We knew that there is a substantial deposit of natural gas even before all of these things started."

Manila says Reed Bank, about 80 nautical miles west of Palawan island at the southwestern end of the Philippine archipelago, is within the country's 200-nautical mile exclusive economic zone. Beijing, however, believes it is part of the Spratlys, a group of 250 uninhabitable islets spread over 165,000 square miles, claimed entirely by China, Taiwan and Vietnam and in part by Malaysia, Brunei and the Philippines.

While China prefers to solve the disputes one-on-one with its smaller Southeast Asian neighbor, Washington has sought to internationalize the issue, given that half the world's merchant fleet tonnage sails across the sea and around these islets each year, carrying $5 trillion worth of trade.

"If we don't develop our positions in our exclusive economic zone, then we will only be giving it away and will be at the losing end," Eugenio Bito-Onon, the mayor of Kalayaan islands in the Spratlys, told Reuters at a coffee shop in Puerto Princesa.

China's oil exploration has been limited in the South China Sea with less than 15 deep sea wells drilled so far. Chinese offshore oil and gas specialist CNOOC Ltd, along with international partners Canada's Husky Energy and U.S. company Chevron Corp., plan to step up exploration in the area but focus mainly in the north, staying away from the politically sensitive waters to the south.

Estimates for proven and undiscovered oil reserves in the South China Sea range from 28 billion to as high as 213 billion barrels of oil, the U.S. Energy Information Administration said in a March 2008 report. That would be equivalent to more than 60 years of current Chinese demand, under the most optimistic outlook, and surpass every country's proven oil reserves except Saudi Arabia and Venezuela, according to the BP Statistical Review.

OIL MANDATE

General Sabban said the necessary patrol ships and surveillance planes will be provided to protect Forum Energy's exploration vessels in Reed Bank.

"We have a mandate to protect all oil companies exploring in our territory," he said. "We don't exactly escort them, but we are in the area to deter any outside force from harassing them."

Forum Energy, whose majority shareholder is the Philippines' top miner Philex Mining Corp., plans to spend around $80 million through 2013 to explore the Sampaguita gas field in Reed Bank, covered by Service Contract 72.

The field is estimated to hold at least 3.4 trillion cubic feet of natural gas, with the potential for five times that amount. That is at least 25 percent bigger than the nearby Malampaya gas field, operated by Royal Dutch Shell, which fuels half of the power needs for the country's main island of Luzon.

The Philippines is eager to further increase its natural gas production to meet growing domestic demand for gas-fired power, which is estimated to surge to 5,000 megawatts per day in 2016, from the current 2,700 megawatts.

"There is no question that there is gas there. We already know one or two locations we would like to drill on," said Apostol, Forum Energy's president, in an interview. "If the first drill is a bonanza, there might be a need to drill back to back."

The company said it is closely coordinating its Reed Bank plans with the military and the energy department, hoping to send drill ships by the fourth quarter.

"We are aware of the implementation risks that have to be taken into account when we contract the drilling services," said Forum Energy's executive director Carlo Pablo. "We have to have plans in case of delays in operations, on mitigating cost overruns, and contractual penalties that may be imposed."

A flotilla of ships could soon follow Forum Energy in disputed waters, with Manila later this year awarding two offshore oil and gas exploration contracts in territory also claimed by China.

That could well keep the phones busy for Sabban and his sailors at Western Command for some time to come.

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16. GAS PRICES CLIMB FOR 21ST DAY

Changing gas prices is becoming a daily occurrence, with the national average approaching $3.72 a gallon.

NEW YORK (CNNMoney) -- Gas prices continued to climb on Tuesday, inching closer to $4 a gallon as they rose for the 21st day in a row.

The nationwide average rose to $3.72 a gallon, up 2 cents from a day earlier, according to the motorist group AAA.

Only a month ago, the nationwide average was $3.42 a gallon.

Gas prices are up 13.3% so far in 2012. The average price is down 40 cents, or about 9.7%, from the record high of $4.11 reported on July 17, 2008.

Average prices for regular gasoline are more than $4 a gallon in California, Alaska and Hawaii. Gas prices are just shy of the $4 mark in New York, Connecticut, and Washington, D.C., according to AAA. The lowest average gas prices are in Wyoming and Colorado, where a gallon is going for less than $3.20.

Gas prices have been rising on the back of soaring oil prices, which have surged 10% over the past month amid fears that tensions with Iran will lead to an all-out war that causes a disruption in oil supplies.

Signs of an improving economy have also been boosting oil prices, along with the stock market, which has seen the S&P 500 (SPX) rise by more than 8% in 2012.

On Monday, TransCanada (TRP) announced that it will move forward with parts of the Keystone XL pipeline, which will boost the flow of crude oil from the oil sands of Canada to the Gulf Coast. While the White House denied a more controversial proposal earlier this year, this portion does not require federal approval and is expected to be operational in 2013.

As gas prices soar, Republican candidates are looking to tie Obama's policies to the increase.

On Monday, Rick Santorum blamed the president for blocking the expansion of domestic energy production. Santorum also argued thathigh gas prices were to blame for the 2008 housing meltdown and ensuing economic slump. ■

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17. OPEC URGES US TO RECONSIDER OFFSHORE DRILLING BAN

The Daily Star (Lebanon)

BRUSSELS: OPEC called Monday on the United States to reconsider a ban on new deep-water drilling that could hold back oil supplies - despite safety concerns in the wake of the massive Gulf of Mexico oil spill.

Abdalla Salem El Badri, secretary general of the 12-member Organization of Petroleum Exporting Countries (OPEC), says offshore drilling is an important source of oil and any ban would be too hasty when the cause of the spill is still unclear.

"We should not really ban it and we should not jump to conclusions," he told reporters after meeting European Union officials in Brussels.

President Barack Obama last month imposed a six-month ban on Gulf of Mexico drilling after an April 20 explosion at a BP oil rig killed 11 workers and blew out a well 1,525 meters under water - spewing out hundreds of millions of gallons of oil.

A federal judge last week overturned the ban as rash and heavy-handed. The White House has appealed, saying continued drilling exposes workers and the environment "to a danger that the president does not believe we can afford."

The spill and the failure of efforts to stop the oil flow have alarmed other nations. The European Union says it will look at its drilling safety rules for the North Sea and make changes if necessary.

Badri said oil producers will examine their rules and drilling practices and "if there is any adjustment that has to be made to the present operation we should take that but we should really be very careful.

"I'm sure that the US government is in limbo because they don't know what's going on in their operation and that's why they stopped their operation in the offshore," he said.

"We hope it will not take long and we hope they will relook at their decision." Some 25 million barrels of oil extracted every year comes from offshore wells - with only 9 million of them from OPEC countries, he said.

He refused to criticize BP, saying "we cannot say BP has a bad reputation because we don't know what happened in the Gulf of Mexico." Iranian Oil Minister Masoud Mirkazemi told reporters at the conference that Iran was "ready to help" the US with its own technical knowledge of capping blowouts.

The US is threatening to increase sanctions against Iran to deter it from developing nuclear weapons - a charge Tehran denies.

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18. TRANSCANADA CHOPS UP KEYSTONE XL TO PUSH IT AHEAD

By Jeffrey Jones and Roberta Rampton

CALGARY/WASHINGTON (Reuters) - TransCanada Corp said on Monday it will build the southern leg of its $7 billion Keystone XL oil pipeline first, skirting a full-blown U.S. review and giving President Barack Obama ammunition to hit back at Republicans who have blasted his energy policy.

Building the portion of the contentious pipeline that would run to Texas refineries from the Cushing, Oklahoma, storage hub before the northern section would help remove a pinch-point that has led to deep price discounts for U.S. and Canadian crude and forced refiners to rely more heavily on imports.

TransCanada said it wants the $2.3 billion southern leg in service by mid- to late 2013. It said construction would create 4,000 U.S. jobs, compared with its previous estimate of 20,000 for the overall project, a figure environmental groups disputed.

The company also wrote to the U.S. State Department on Monday detailing plans to refile an application shortly for the remainder of line running to Steele City, Nebraska, from the Canada-U.S. border, reminding officials that much of the environmental assessment work is already done.

The development in the long-running battle over the pipeline comes as Obama seeks to fend off Republican jibes about quashing the project, with surging U.S. gasoline prices and a push for job creation among top election issues.

Obama rejected the initial Keystone XL application in January after more than three years of study, saying it needed more environmental review than could be completed before a tight deadline that had been set by Congress.

The White House welcomed the move, and said it would work to expedite permits for the southern portion of Keystone XL, which in its entirety is widely criticized by environmentalists for its route near underground water supplies in Nebraska and its potential to fuel more development of Canada's oil sands.

"Moving oil from the Midwest to the world-class, state-of-the-art refineries on the Gulf Coast will modernize our infrastructure, create jobs, and encourage American energy production," White House Press Secretary Jay Carney said in a statement.

One benefit to TransCanada of building the 700,000 bpd Cushing-to-Texas portion is the elimination of a lengthy State Department approval, as the line would not cross the Canada-U.S. border. That is where the project stalled in January.

For the northern portion that still requires the agency's green light, TransCanada believes it can have a new route finalized with the state of Nebraska by October or November of this year, Alex Pourbaix, the head of the company's pipeline division, said in an interview.

Given environmental work done to date, the State Department could make its decision as early as the first part of next year, Pourbaix said. That would mean startup in 2015.

The department said it would have to see the application before it could talk about timelines.

"The hope is that it could be more expeditious because we could make use of the work that we've already done, but we still have to do this right and we still have to allow an opportunity for input from all of the folks who we are mandated to allow to have an opinion," State Department spokeswoman Victoria Nuland said.

COOL RESPONSE FROM REPUBLICANS

A chopped-up project comes as cold comfort to Canada's oil sands companies, which have been struggling with widening price discounts for their burgeoning output, partly due to tight export pipeline capacity.

Ottawa has lobbied Washington intensively to move Keystone XL forward as a way to increase returns for one of the country's most lucrative exports. Since it was rejected, the Canadian government has pushed hard for a new export route to the West Coast, where the crude could be shipped to Asia.

That has spurred warnings, especially from Republicans, that China would be the ultimate winner in the debate.

"Under this administration, this is perhaps the best that can be done right now to help move domestic supply to Gulf Coast refiners," said Republican Senator David Vitter of Louisiana.

But completing the whole line is essential to bringing in Canadian oil to offset Middle East imports, Vitter said.

Republicans in Congress vowed to continue their battle to legislate approval for the entire project as part of a highway and infrastructure funding bill.

The full Keystone XL project would extend 1,661 miles to the Port Arthur, Texas, area from Hardisty, Alberta, moving 830,000 barrels a day. Canadian approval is already in hand.

The Gulf Coast portion would help lessen a glut of oil supply at Cushing, a major factor cited for deep price discounts on land-locked North American oil compared with international grades, such as the Brent benchmark.

In the past month, the spreads, especially on Canadian and North Dakota crudes, ballooned, in some cases to record levels, due to tight pipeline space and surging production.

The segment would compete with the Seaway pipeline, run by Enbridge Inc and Enterprise Products Partners.

A reversal in the direction of flow in that line is expected to be completed by June, allowing 150,000 bpd to move to Houston-area refineries. The companies have talked about expanding it to as much as 800,000 bpd.

Pourbaix said he believes that there is more than enough forecast new supply at Cushing - up to 2 million barrels a day - to accommodate both projects.

It is unlikely TransCanada's conduit would run at capacity until the rest of Keystone XL gets built, UBS Securities analyst Chad Friess said.

"I would expect that the returns on this initially will be quite low," Friess said. "I don't think that in the end it will really change anything, other than what's been changed by the cost overruns that have happened so far."

TransCanada shares rose 39 Canadian cents, or 1 percent, to close at C$42.39 on the Toronto Stock Exchange.

Environmental groups were upset that a portion of a project they have fought hard against for more than a year appears to be moving ahead, calling it a "piecemeal gimmick."

"Even though this doesn't bring new oil in from the tar sands, we stand with our allies across the region who are fighting to keep giant multinational corporations from condemning their lands," Bill McKibben, founder of 350.org, said in a statement.

"This fight is uniting people, from environmentalists to Tea Partiers, in all kinds of ways."

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19. TRANSCANADA TO CONSTRUCT CUSHING TO U.S. GULF COAST CRUDE-OIL PIPELINE

By Mike Lee and Jim Polson
Bloomberg
Feb 27, 2012

TransCanada Corp. (TRP) will proceed with building a $2.3 billion segment of its Keystone XL oil pipeline from Oklahoma to the Texas coast so that it isn't delayed by U.S. approval for the rest of the line.

The company, based in Calgary, expects the segment to begin carrying crude from the Cushing, Oklahoma, storage hub to refineries on the U.S. Gulf Coast as soon as mid-year 2013, according to a statement today. TransCanada is separating the Cushing line from its application to President Barack Obama for approval of a Keystone expansion that will bring crude into the U.S. from Canada's oil sands.

"We remain committed to building this overall project in a timely and efficient manner and to meet demand of shippers," said TransCanada Chief Executive Officer Russ Girling in an interview today. Shippers are making multi billion dollar commitments spanning decades and "they haven't wavered from Keystone," he said.

As originally envisioned, Keystone XL would have carried as much as 830,000 barrels of oil a day from Alberta, Canada, and the Bakken Shale formation in North Dakota and Montana along a 1,661-mile (2,673-kilometer) path to Texas refineries. The full $7.6 billion Keystone pipeline needed a permit from the State Department because it crossed the U.S.-Canada border.

Obama's Keystone Rejection

Obama rejected Keystone XL in January based on concerns the pipeline might pollute drinking water resources in Nebraska. Obama said a Congressional deadline left him too little time to consider the revised route through Nebraska that the company accepted in November.

As a stand-alone project, the Cushing segment will not need approval from the State Department. The pipeline will help relieve oversupplies that have accumulated in the U.S. Midwest because of a lack of pipeline capacity to carry the oil to refineries on the coast.

Cushing is the delivery point for crude oil traded on the New York Mercantile Exchange. A lack of pipeline capacity between Cushing and theGulf Coast, where most refineries are located, has caused U.S. oil to trade at a discount to imports.

Obama's administration supports TransCanada's plan to build the Oklahoma-to-Texas segment separately.

"Moving oil from the Midwest to the world-class, state-of- the-art refineries on the Gulf Coast will modernize our infrastructure, create jobs, and encourage American energy production," White House Press Secretary Jay Carney said in a statement today.

'Near Future'

TransCanada will apply for a permit "in the near future" to build the section from the U.S.-Canada border to Steele City, Nebraska, according to the statement. The company may alter the route in Nebraska, the company said in the statement.

Proceeding with the Cushing (CLCO1) section of the line will allow TransCanada to realize income from the pipeline before the full project is built, said Steven Paget, an analyst with FirstEnergy Capital Corp. in Calgary.

"The Gulf Coast Project will transport growing supplies of U.S. crude oil to meet refinery demand in Texas," Girling said in the statement. "Gulf Coast refineries can then access lower-cost domestic production and avoid paying a premium to foreign oil producers."

Environmental groups remain opposed to all sections of the pipeline because of concerns about the potential environmental impact of tar-like bitumen known as oil-sands crude.

'National Interest'

"Whether in pieces or as a whole, the Keystone XL tar sands pipeline is not in the national interest," Susan Casey- Lefkowitz, director of international programs for the New York- based National Resources Defense Council, wrote in a comment published on the environmental organization's website. "Raw tar-sands oil going from the Midwest to the Gulf for refining means serious pipeline safety issues for landowners."

Enbridge Inc. (ENB) and Enterprise Products Partners LP (EPD) are preparing to reverse the Seaway pipeline between Cushing and Houston, which will also help alleviate the glut at

Cushing. Seaway will be able to carry 150,000 barrels by June 1, and will be expanded to 400,000 barrels by early 2013, the companies have said.

FirstEnergy's Paget said there's room for both pipelines, since oil production is growing in the U.S. Also, the full Keystone pipeline will eventually bring much more oil to Cushing, he said.

"The Seaway line's contracts are independent of Keystone," said Paget, who rates TransCanada's shares"market perform" and owns none. "I'm not saying both lines will be full."

TransCanada rose 0.9 percent to C$42.39 today in Toronto.

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20. REPSOL CREWS BATTLING ALASKAN WELL BLOWOUT AFTER TWO WEEKS

By Pierre Bertrand
International Business TimesI

Repsol, Spain's No. 1 energy company, which started deepwater oil exploration off Cuba this month, is still battling a well blowout from almost two weeks ago in Alaska's North Slope.The blowout may cast doubt on some of its major oil projects off the coasts of Venezuela and Brazil.

Drilling mud is a water-and-lubricant mixture that cuts down on friction. The fluid also helps move shavings of earth back to the surface and away from the drill so as to prevent the hole from filling back up. As of Saturday, the well was still not under control, Alaska's Department of Environmental Conservation reported.

"Response crews continue 24-hour operations to steam thaw and remove drilling mud from the drilling rig in order to access the essential drilling rig components needed for the well-kill operation," the department said.

As of Feb. 25. the department reported an additional 7,308 gallons of drilling mud and water was shipped off the drilling site, bringing the total volume of liquids discharged from the well to 43,176 gallons or 1,028 barrels.

The department stressed that much of the liquid is water condensate from steam used to thaw out the frozen drilling mud from the Alaskan tundra. In all, 125 cubic yards of solid waste was shipped off the drilling site.

The North Slope well encountered a pocket of natural gas on Feb. 15 that promptly forced drilling mud to erupt out of the well bore. The well is located near the Colville River, 625 miles from Anchorage.

Repsol's American Depositary Receipts were flat in Monday trading, down a penny to $27.76.

The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of The NASDAQ OMX Group, Inc.

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21. CRUDE FUTURES DECLINE AS G-20 REJECTS EUROPE REQUEST, IMF WARNS ON ECONOMY

By Moming Zhou
Bloomberg
Feb 27, 2012

Oil fell for the first time in eight days after the Group of 20 nations rebuffed calls from euro countries to increase lending resources, adding to concern that Europe's debt crisis will slow the economy and reduce demand.

Prices dropped 1.1 percent as the G-20 said Europe needs to review its financial firewall before the group considers boosting the International Monetary Fund's resources. IMF Managing Director Christine Lagarde warned the world economy is "not out of the danger zone" amid fragile financial systems and rising oil prices.

"We've got a range of fundamental factors that are bearish and Europe is in that category," said Tim Evans, an energy analyst at Citi Futures Perspective in New York. "We had been rising sharply day after day and prices have reached a level where traders are afraid to buy more."

Oil for April delivery fell $1.21 to settle at $108.56 a barrel on the New York Mercantile Exchange. The contract rose to a nine-month high on Feb. 24. Prices have increased 9.8 percent this year.

Brent oil for April settlement declined $1.30, or 1 percent, to $124.17 on the London-based ICE Futures Europe exchange. Both grades fell further in electronic trading after the settlements, with WTI down 2 percent and Brent down 1.7 percent.

"You have the IMF warning about the world economy and the worries about Europe are starting to re-emerge," said Gene McGillian, an analyst and broker at Tradition Energy in Stamford, Connecticut. "The market went a little too far on the upside and it's now pulling back a bit."

G-20 Rejection

The G-20 rebuffed German-led calls to help Europe fight its debt crisis, saying yesterday in Mexico City that any decision on outside aid hinges on the euro area delivering more financial firepower within two months.

Lagarde said that G-20 countries "must now strengthen resilience to further shocks that could result from still fragile financial systems, high public and private debt, and higher world oil prices."

U.S. oil demand was 18.1 million barrels a day in the four weeks ended Feb. 17, according to the Energy Department, a 14- year low and 17 percent below the record set in 2007. The International Energy Agency on Feb. 10 cut its 2012 global oil demand forecast for a sixth month.

Technical Indicators

Crude also slipped after the 14-day relative strength index for front-month contracts climbed to 76.9 on Feb. 24, according to data compiled by Bloomberg. A reading above 70 indicates futures have risen too quickly and further gains aren't sustainable. Today's 14-day RSI dropped below 71.

"Technical indicators, the RSI for example, are pointing to a little bit overbought," said Rich Ilczyszyn, chief market strategist and founder of Iitrader.com in Chicago.

Nymex-traded West Texas Intermediate's discount to Brent crude narrowed for a third day as Calgary-based TransCanada (TRP) said it will build a $2.3 billion stand-alone pipeline from the oil storage hub at Cushing, Oklahoma, to the Gulf Coast that may be in operation by mid-2013.

The segment will help to relieve oversupply in the U.S. Midwest. Cushing is the delivery point for Nymex oil futures. A lack of pipeline capacity between Cushing and the Gulf Coast, where most refineries are located, has caused U.S. oil to trade at a discount to imports.

'Raising Hopes'

The Keystone XL project, which would expand the amount of oil that can be shipped from Canada and extend the system to Texas refineries, was rejected by the Obama administration in January. The planned segment from Cushing to Port Arthur, Texas, wouldn't require State Department approval.

"This is raising hopes that the bottleneck from Cushing to the Gulf Coast is coming to an end," said Phil Flynn, an analyst at PFGBest inChicago.

WTI's discount to Brent narrowed 9 cents to $15.61 a barrel. The spread was $19.02 on Feb. 6. It reached $28.08 in intraday trading on Oct. 14 amid a glut of crude in the central U.S. that pushed crude inventories at Cushing as high as 41.9 million barrels last year.

Hedge funds and other large speculators raised wagers on rising prices in futures and options combined by 11 percent to 259,162 in the week ended Feb. 21, according to the Commodity Futures Trading Commission's Commitments of Traders report. Bets increased 26 percent over two weeks, the biggest gain since March.

Electronic trading volume on the Nymex was 621,630 contracts as of 3:27 p.m. in New York. Volume totaled 798,279 contracts on Feb. 24.

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22. SUPPORT IS OFFERED TO GREEK BANKS AFTER LATEST DOWNGRADE

By Jack Ewing
The New York Times

FRANKFURT - The European Central Bank acted Tuesday to prevent a potential collapse of the Greek banking system after the country was declared by a rating agency to be in "selective default," making Greek bonds ineligible as collateral.

Standard & Poor's issued the latest downgrade late Monday because of a debt reduction deal reached last week with Greece's private sector creditors. Greece will pay back less than half the face value of its bonds under the agreement, which is ostensibly voluntary.

The E.C.B. did not specifically mention the S.&P. downgrade Tuesday, but said in a press release that the agreement with creditors meant Greek bonds could no longer be used as collateral to get cash from the central bank.

However, the E.C.B. said banks could continue to draw cash from national central banks temporarily under a separate program known as emergency liquidity assistance.

The E.C.B. said it would accept Greek bonds as collateral again in mid-March, when European governments will guarantee part of the value of Greek bonds under a new program.

In Athens, the Greek Finance Ministry said in a press release that "the downgrade has no impact in the Greek banking sector" because the Bank of Greece and the European bailout fund would step into the breach.

Since the beginning of the financial crisis in 2008, the E.C.B. has been allowing banks in the euro zone to borrow as much money as they wanted at the benchmark interest rate, which is 1 percent. But banks must post collateral.

Banks typically have large holdings of their own country's debt, which they use as collateral. That makes them highly vulnerable if the debt is declared to be in default.

Greek banks would probably collapse if they could not use their holdings of domestic bonds as collateral to obtain cash, and banks in some other countries might also run into problems.

Collateral is particularly important for euro zone banks this week. On Tuesday the E.C.B. will begin an operation to provide banks with three-year loans at 1 percent interest, the second installment of recently introduced longer-term loans. On Wednesday the central bank will announce how much banks borrowed.

An earlier round of three-year loans in December has been crucial in reducing financial tension in the euro zone.

As a further sign of that Italy, which has also come under pressure because of its heavy debt load, saw its borrowing costs drop as it sold €3.75 billion, or $4.7 billion, of a new 10-year bond.

The yield was 5.5 percent, down from 6.08 percent on Jan. 30 and the lowest level since September, Bloomberg News reported.

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23. S&P PUTS GREECE IN SELECTIVE DEFAULT

By Kerin Hope in Athens and Gerrit Wiesmann in Berlin
The Financial Times

Greece shrugged off a downgrade to "selective default" on Monday by ratings agency Standard & Poor's, saying the move was expected following its launch of private sector involvementin a €206bn debt restructuring.

The finance ministry said the downgrade was "pre-announced and all its consequences have been anticipated, planned for and addressed" by eurozone partners who are backing Greek efforts to avoid a disorderly default.

A successful completion of the debt restructuring would clear the way for Athens to receive a second €130bn bail-out from international lenders, in return for implementing a fresh round of fiscal and structural reforms. Greece would remain in selective default until its debt swap offer closes on March 12 for a majority of bondholders, but "upon completion of the PSI, the sovereign is expected to be re-rated upwards," the ministry said.

S&P said the downgrade followed the retroactive insertion by Athens of a "collective action clause" forcing all bondholders to accept the terms of the deal put forward by the government for bonds issued under Greek law.

The Greek move "constitutes the launch of what we consider to be a distressed debt restructuring ... we believe the retroactive insertion of CACs will diminish bondholders' bargaining power in an upcoming debt exchange," it said.

However, if the restructuring went through as planned, the rating agency would "likely consider the selective default to be cured" and would raise the country's sovereign credit rating by one notch to CCC.

Bondholders face a possible 75 per cent cut in the value of their holdings as a result of the swap. They would receive a package of new instruments with a nominal value of just 46.5 per cent of the par value of their current Greek bonds.

S&P's downgrade follows a similar move by Fitch, which last week cut Greece's long-term rating to one notch above default, citing the bond swap arrangement.

Earlier in the day Angela Merkel, the German chancellor, managed to secure the resounding backing of the German parliament for a second financial aid package for Greece even after she warned that the success of the new programme was uncertain.

Despite signs that Germany and the Merkel government are suffering rescue-fatigue after two years of trying to pull Athens from its mire of debt, the Bundestag on Monday accepted the €130bn programme - with the proviso that Athens keep its pledges, and private creditors agreed to restructure debt - with a sweeping majority.

Ms Merkel told a packed chamber that she had sympathy for people who saw Greece as a "bottomless pit" or "a hopeless case" but she weighed the pros and cons of default and concluded that "the opportunities in the new programme outweigh the risks" for Greece and the eurozone.

Amid calls from a growing chorus of public figures that Athens be cut loose from the single currency bloc, Ms Merkel warned that forcing Greece to reintroduce the drachma could carry consequences "that are incalculable and therefore irresponsible", in particular for the region's periphery.

In the days leading up to last week's deal between Greece and its eurozone partners, Wolfgang Schäuble, the finance minister, pushed privately for Germany to let Athens default. He warned publicly late last week that Greece's second programme might not be its last.

Signs that his words were only a hint of wider doubts in the cabinet came at the weekend, when Hans-Peter Friedrich, interior minister, told Spiegel magazine that Greece had better chances of restoring its health outside the eurozone.

With Athens being thrust into a tight programme of savings and reforms, the success of the debt restructuring uncertain and the Greek economy in deep recession, Bild, Germany's top-selling tabloid called on the Bundestag on Monday to stop the next step "on this crazy path" and let Athens go into default. "Billions for Greece - Stop!" the tabloid demanded.

Speaking for the opposition Social Democrats, Peer Steinbrück, who served as finance minister in Ms Merkel's first government, warned that "we'll get to a third package in the foreseeable future," as Greece would not reach the goals set down in the new programme because of a lack of economic growth and tax takings not rising as planned.

But the Social Democrats and the opposition Greens invoked the need for European solidarity and joined Ms Merkel's Christian Democrats and her Free Democrat junior partner to pass the package by 84 per cent of the 591 votes cast. Ms Merkel also got enough votes from her coalition, including the interior minister, to secure a majority from within her own governing group - a symbolic but crucial result.

Nonetheless, Ms Merkel failed to secure the so-called '"Chancellor's majority" of the total 622 seats in the Bundestag - rather than the 591 votes cast - as 20 of her lawmakers abstained or voted against the resolution, and six were absent because of travel or illness. This was more than the 15 dissenters Ms Merkel suffered in the last big rescue vote, although party whips were less rigorous about enforcing the absolute majority.

If Greece managed to get wages back in line with productivity, the chancellor said, the country could find its way back to a "sustainable growth path" even as it reformed government finances. But there was no "100 per cent chance for success".

Outlining dangers at the very start of the programme, Ms Merkel warned thatprivate sector involvement in the debt restructuring talks, was an "unprecedented" process for the eurozone, which could reduce the risk of financial-market contagion if successful - but increase it if they failed.

The eurozone would know on 10 March what proportion of Greek bond holders were on board, she said, with a low participation rate possibly forcing the bloc to trigger collective action clauses, and maybe a credit event, to force all bondholders to take part.

Despite this risk, Ms Merkel stressed that there was "currently no necessity" to increase the eurozone firewall, although Germany would be prepared to pay its €22bn in capital into the €500bn permanent European Stability Mechanism in 2012 and 2013, instead of over five years as originally planned.

Mr Schäuble signalled late last week that Berlin would accept the combination of the temporary European Financial Stability Facility and the ESM to form a €750bn backstop, as demanded by Germany's eurozone partners and the International Monetary Fund.

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24. S&P DOWNGRADES GREECE TO SELECTIVE DEFAULT

4:31am EST

ATHENS (Reuters) - Standard & Poor's on Monday cut Greece's long-term ratings to 'selective default', the second ratings agency to proceed with a widely expected downgrade after the country announced a bond swap plan to lighten its debt burden.

S&P said that once the debt exchange is concluded, it would likely raise Greece's sovereign credit rating to the speculative 'CCC' category.

"We lowered our sovereign credit ratings on Greece to 'SD' following the Greek government's retroactive insertion of collective action clauses (CACs)," the U.S. ratings agency said.

It said Greece's retroactive insertion of CACs -- which enforce losses on investors who do not voluntarily sign up to the offer -- changed the original terms of the affected debt and made the exchange a "distressed debt restructuring".

Greece formally launched the bond swap on Friday. Under the deal, bondholders will take losses of 53.5 percent on the nominal value of their Greek holdings, with actual losses put at around 74 percent.

S&P said if enough bondholders did not accept the bond swap offer, Greece would face an imminent outright payment default.

The agency defines its "selective default" status as one where the obligor has selectively defaulted on a specific issue or class of obligations but will continue to meet payment obligations on other issues or classes in a timely manner.

Athens said the downgrade was expected and would not hurt its banks since the central bank had already made provisions for it.

"This rating does not have any impact on the Greek banking system since any likely effect on liquidity has already been dealt with by the Bank of Greece," the Greek finance ministry said in a statement.

S&P's move follows that of Fitch, which last week cut Greece's long-term ratings to its lowest rating above a default as a result of the bond exchange plan.

S&P also said that any upgrade to the 'CCC' category rating would reflect its view of Greece's uncertain economic growth prospects and still large public debt, even after the restructuring is concluded.

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25. COLUMN-SANCTIONS RISK RERUN OF OIL'S 2011 FLASH CRASH: KEMP

By John Kemp

LONDON, Feb 27 (Reuters) - Soaring oil prices and the loss of exports from South Sudan, Syria and Iran pose awkward questions for investors and policymakers.

Last year, a similar surge following the outbreak of the Libyan civil war eventually resulted in the flash crash on May 5 and the decision to release emergency stocks by the United States and other members of the International Energy Agency (IEA) on June 23.

Investors and policymakers are being pressed to explain why the outcome this time will be different.

The problem is that the circumstances are nearly identical.

The IEA is struggling to explain why it made sense to release stocks following the Libyan outage but does not make sense to release them following the loss of production from South Sudan, Yemen and Syria, and the tightening stranglehold on Iran's exports.

Investors cannot explain why the market will be better supported in 2012, following a rally which has left almost all hedge funds with large long positions, when last year's nearly identical rally set the market up for the largest one-day price drop on record.

Two charts neatly encapsulate the problem.

Chart 1 shows the ratio of long to short positions run by hedge funds and other money managers in futures and options linked to U.S. crude oil (WTI). Following the Libyan disruption, the long/short ratio surged from 4:1 to peak at 10:1 on the eve of the flash crash. Following problems in South Sudan, Syria and Iran the long/short ratio has also soared from 4:1 to 9:1.

Chart 2 shows timespreads in the Brent crude market for the crucial summer months, when refinery demand is at its highest as refiners go flat out to meet summer driving demand in the United States. The IEA cited Brent spreads as a sign of mounting tightness in the physical market last year to explain why it decided to release emergency stocks. Supply disruptions and the Iranian embargo have had an almost identical impact in 2012.

Some observers have suggested a stock release would not be justified in 2012 because unlike last year there has not actually been a significant disruption in supplies. The IEA should wait until tanker traffic is actually halted or threatened through the Strait of Hormuz, they argue, before providing additional barrels to the market.

But this argument ignores the losses of oil from South Sudan, Syria and Yemen, and Iran's growing difficult in finding buyers for its crude, which appears to have cut the country's exports by several hundred thousand barrels per day. The tightening timespreads for Brent imply those losses are just as real as in 2011. If the release of 60 million barrels was justified last year, it would seem to be justified again in 2012.

Investors also face the awkward reality that the oil rally looks just as stretched as it did last year. WTI prices rose $30 per barrel (35 percent) between the outbreak of fighting in Libya and the flash crash. But they have now risen $33 (44 percent) since their recent low last October as outages and tensions surrounding Iran mount.

On the brink of the crash, hedge funds and money managers had amassed long futures and options positions amounting to 400 million barrels of crude (and short positions amounting to just 38 million), helping push front-month WTI prices to $114. Last week, hedge funds had amassed 326 million long positions, and 36 million shorts, according to the U.S. Commodity Futures Trading Commission (CFTC), helping take WTI prices to almost $110.

The inconvenient truth for hedge funds and policymakers is that the situation in 2012 is an almost exact re-run of 2011 -- which suggests the outcome might be the same.

The main difference is even more awkward for policymakers. In 2011, the disruption of supplies was caused by an external shock from Libya. In 2012, it has been caused by a combination of external shocks (South Sudan, Yemen, possibly Syria) and a self-inflicted wound caused by sanctions imposed on Iran's oil sales by the EU and the United States.

"The problem is that the oil price spike we're seeing is being driven by foreign policy, not the fundamentals of supply and demand," said a UK energy official, reported in the Financial Times ("Obama pressed to open emergency oil stocks" Feb. 27).

Policymakers are reluctant to admit there is a serious shortage of crude and order a stock release because it would mean admitting they badly miscalculated the impact of sanctions.

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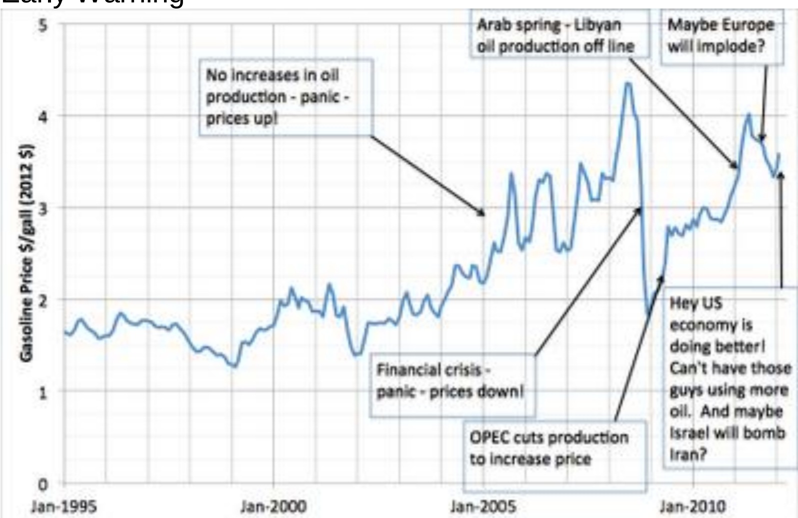
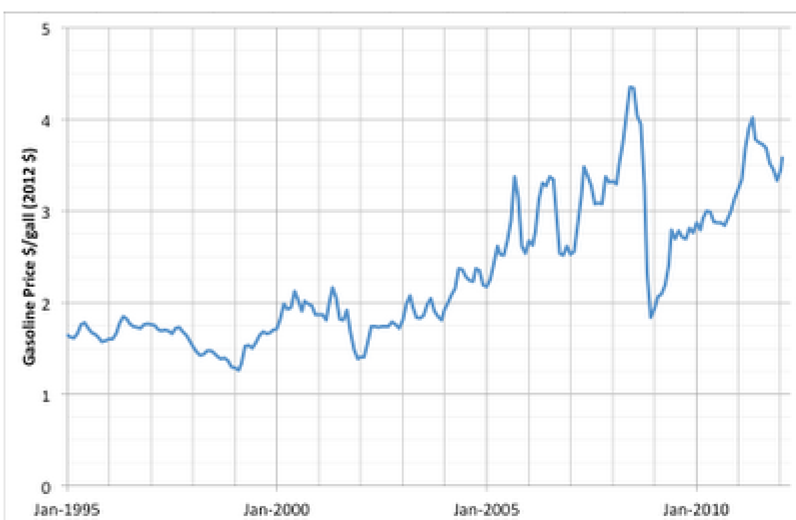
26. WHY ARE GAS PRICES HIGH?

by Stuart Staniford
Early Warning

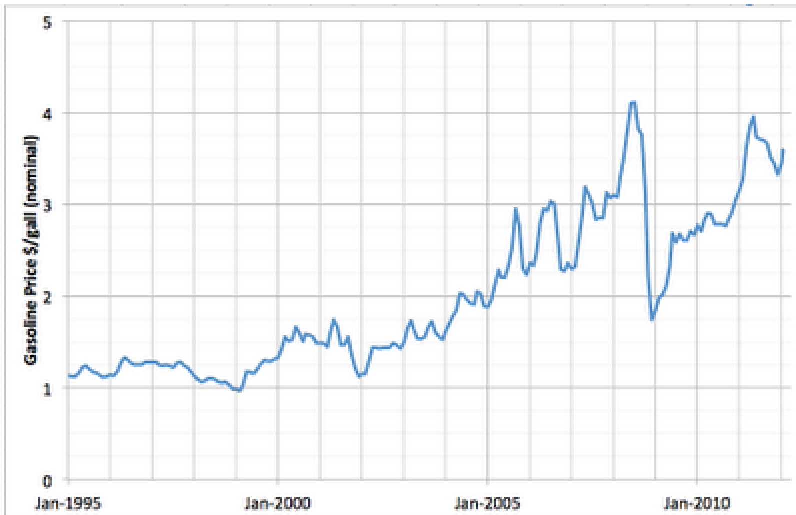


Gas prices are going up again, resulting in a lot of discussion by people who don't normally think about the oil markets, and therefore aren't necessarily that well informed about the subject. As a certified oil-obsessive these last seven years, I thought I'd put up a "cheat sheet" with just the key graphs that would allow you to understand the major forces that affect the behavior of gas prices over time.

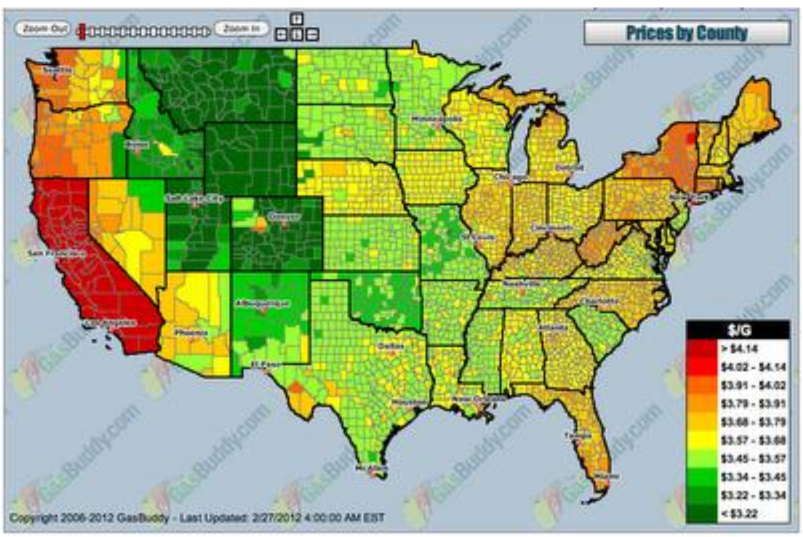
First, I've got this graph of gas prices adjusted for inflation:[1]



As you can see, gas prices are not as high as they were in 2008 or even last year. However, they are going up and they are certainly much higher than they've been at most points in the last five years, and way higher than the happy days of the nineties. Plus most people probably think in terms of the nominal prices (ie without adjusting for inflation) and that makes it seem worse:

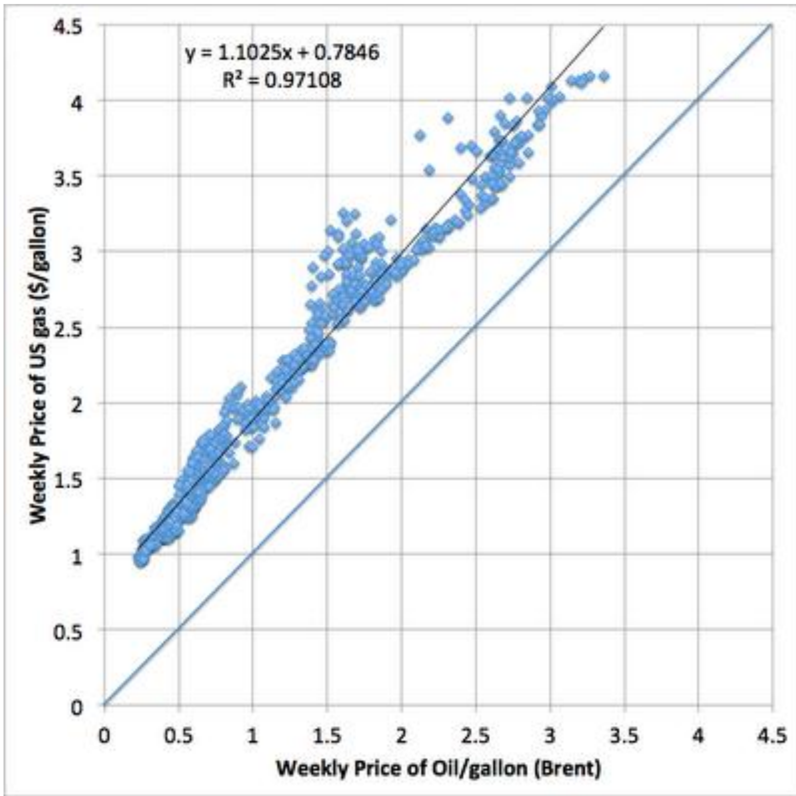


It seems like a fair likelihood that gas prices will top $4 again soon, and of course regionally they already are:



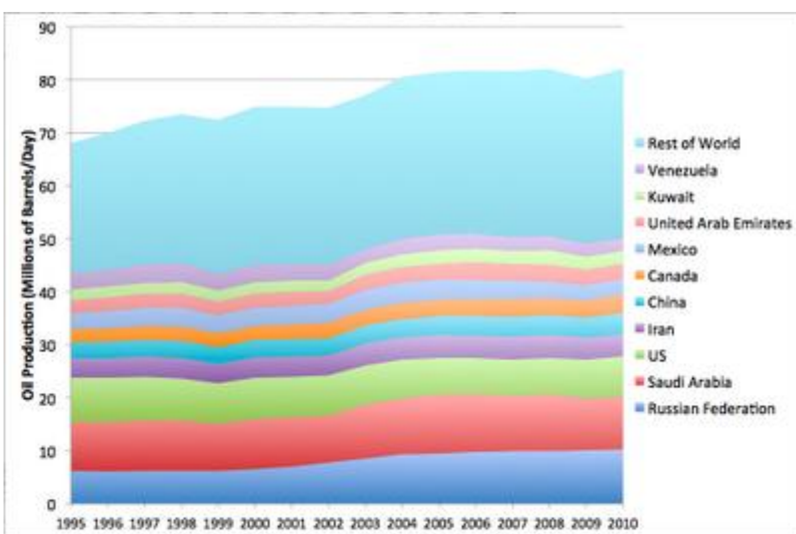
No fair! the exasperated consumer cries. So why is this?

The first thing to understand is that the price of gas over time is fairly closely related to the price of oil. This next graph shows the weekly retail price of gasoline versus the price of oil (per gallon, vs the usual per barrel) for the same 1995-2012 period as above:



You can see that there's a very strong relationship over time. Technically, 97% of the variance of the price of gas is explained by the price of oil. Less technically, the blue 45 degree line is what would happen if gasoline cost exactly the same as the bulk price of the oil in it. The blue dots are what it actually cost. The difference is what refiners and distributers and retailers get (what in oil industry terms is called "downstream"). You can see that by and large the downstream industry gets a minimum of about 75c a gallon - occasionally they are able to tack on an extra 50c or so, but not consistently. The vast bulk of the price of a gallon of gas is going upstream - to the folks who own and extract the oil from the ground.

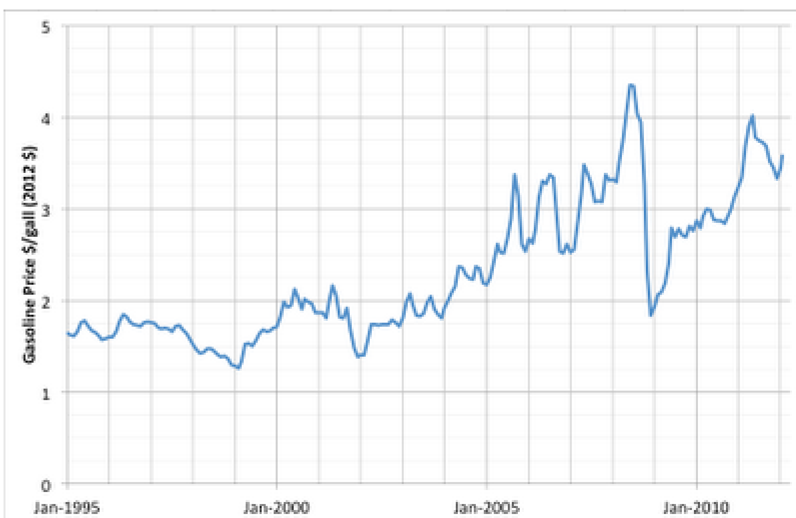
So that's the big evil oil companies, right? Yes and no. More no than yes. This next graph shows the top ten countries as a source of oil:



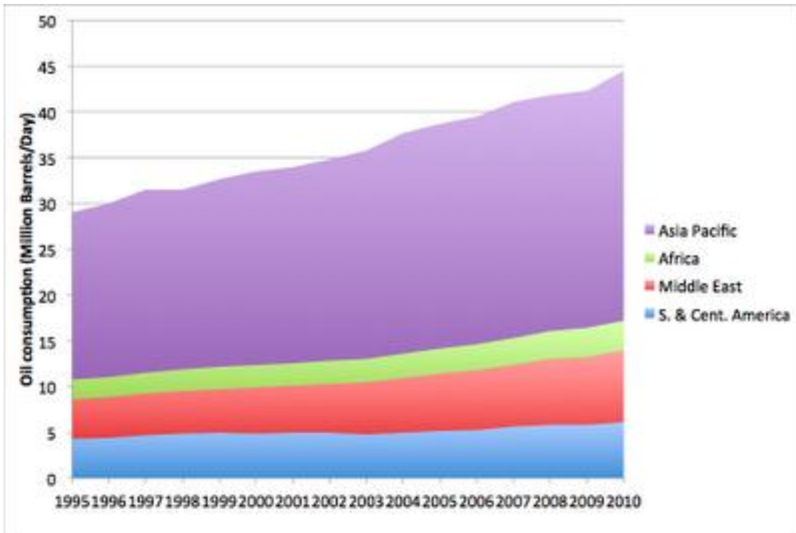
(Data from BP). You can see that the top two by far are Russia and Saudi Arabia, and OPEC countries dominate the rest of the list too. Note particularly the prominence of unfriendly countries like Iran and Venezuela. With the partial exception of the US, western countries are bit-players as oil sources at this point, So most of the oil revenue is going to semi-friendly or actively hostile countries - and by and large all those countries nationalized their oil reserves long ago and either don't use western oil companies at all, or pay them a moderate fee per barrel and keep most of the profit. So while it's certainly true that the big western oil companies (Exxon, Chevron, Shell, etc) make a lot more money when gas prices are high than when they low, those companies aren't the main cause of the problem.

The main cause of the problem is staring you right in the face in that graph above - roughly speaking oil production stopped increasing in about 2004. Historically, most of the time[2] as economies grow, more houses, offices, and factories get built on the edge of towns everywhere, people buy more and bigger cars, and oil demand increases. Generally, when the economy increases in size by about 10% (as measured by GDP) oil demand increases by around 6% or 7%. Usually in the past, oil production has increased as a result. However, lately, it's become harder and harder to find ways to increase oil production. In particular, you can see that both Russia and Saudia Arabia were increasing production in the late 1990s through 2004 and that was a lot of the increase in total global production. But since 2004 they are roughly flat.

This means that the world is engaged in a bidding war for oil - prior to about 2004, there was quite a bit of excess capacity in the global oil production system and it was essentially a "buyer's market" in oil. Since then it's been very much a seller's market. You can see this very clearly in the price graph we started with:



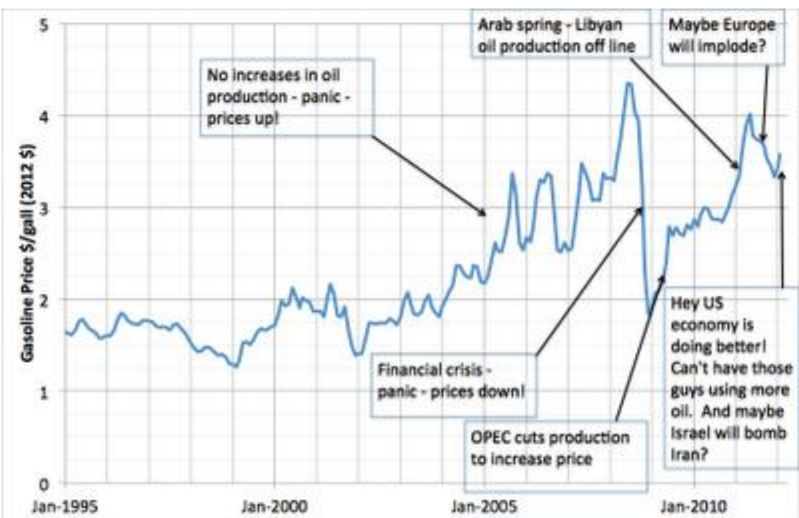
Prior to 2004 or 2005, gas prices were relatively low and stable (under about $2/gallon). Since then they've been high and volatile. With flat global oil production and a still growing economy, someone has to be squeezed out and persuaded not to use as much oil, and it takes high prices to do that. The "growing economy" part is particularly important in the developing world - a little oil makes a big difference to productivity. The productivity enhancement coming from getting around on a small motorbike vs a bicycle is much bigger than the productivity enhancement that comes from switching from a car to an SUV, though the latter change requires much more oil. Thus we find developing regions of the world are not slowing down much in their increase in oil consumption:



Comfortably over half of global oil is now going to these regions. So the US and Europe, who traditionally used the lion's share of the planet's oil production, find themselves squeezed between flat global production and rising developing country consumption.

Under these circumstances, gas prices will continue to be high and volatile - and indeed will very likely go higher yet before we are through. US and European consumers are going to have to conserve more and more oil - there's just no two ways about it. There's a reason that just about every car company is experimenting with electric cars.

Finally, it's worth one last graph to explaining the detailed price movements over the last few years:



Footnotes:

1. Technically, this was done using the CPI less energy from the BLS and adjusted to Jan 2012 price level. Gas prices are monthly retail all grades national average from the EIA. February is extrapolated from the weekly data.

2. The seventies were an important exception when major supply disruptions caused economic disruption, conservation efforts, and a reduction in oil usage.

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27. THE 'HIGH OIL PRICES = RECESSION' FALLACY

ZeroHedge

Every time we see oil prices go up we hear that it will cause inflation and/or the economy will go into the tank.

... 7 out of the 8 postwar U.S. recessions had been preceded by a sharp increase in the price of crude petroleum. Iraq's invasion of Kuwait in August 1990 led to a doubling in the price of oil in the fall of 1990 and was followed by the ninth postwar recession in 1990-91. The price of oil more than doubled again in 1999-2000, with the tenth postwar recession coming in 2001. Yet another doubling in the price of oil in 2007-2008 accompanied the beginning of recession number 11, the most recent and frightening of the postwar economic downturns. So the count today stands at 10 out of 11, the sole exception being the mild recession of 1960-61 for which there was no preceding rise in oil prices. [Hamilton, 2009. Rv. 2010]

The premise is wrong. What causes price inflation is an expansion of money supply (and a desire of people to spend it, often quickly). What causes recessions is malinvestment of capital caused, again, by money supply expansion.

The classic argument is that because 70% of the economy is driven by consumer spending, an increase in gasoline prices will cause a decrease in consumer spending, which will cause an economic decline. Sounds logical on its face. There are empirical studies that show either increases in gasoline prices will not impact discretionary spending (McCarthy, 20110) or that large increases in petroleum prices will cause recessions (Hamilton). Take your pick.
The above chart1 shows the peak of real YoY GDP percentage change (light blue lines) and the relative price of gasoline (red), the product that most directly affects consumers. If gasoline prices have been increasing prior to the peak, then there is statistical data showing that those prices may have had an impact on GDP. From that one might conclude that because oil prices were rising prior to the peak in GDP, and because GDP subsequently declined, then high oil prices may have caused a decline in GDP. (Because A happened and then B happened, thus A caused B?) Or, is it just a coincidence?

What we see in the data is coincidence rather than confirmation.

Take price increases of oil and gasoline. It doesn't cause price inflation (i.e., all prices rise). Instead it's a supply and demand thing. When OPEC jacks up oil prices, people spend more on gas and less on other things. The consumer goods they don't buy decline in price. Money is redirected by market forces to petroleum producers who are incentivized to discover and produce more oil. Ultimately, under normal circumstances, prices come down. This process is a bit distorted because we have a cartel-controlled market. But, if OPEC keeps prices too high, people reduce consumption, cartel revenues go down, and OPEC reduces prices to stimulate consumption. This is what happened in the current business cycle.

It is the same with recessions and oil prices. Each of the recessions we've had in the last 40 years can be adequately explained by causes other than oil/gas prices. For example, while oil/gas prices shot up prior to the 2008 Crash, no one suggests that was a cause of it. Rather we know that oil prices went up as a result of a fiat money fueled boom that drove up all commodity prices.

Looking at our chart, we can start with the 1973 - 1975 recession. That was the time of the Arab Oil Embargo (Oct. 1973 to March 1974). If the theory that high oil prices equals recession holds true then why did the economy recover when gas prices continued to rise post-recovery? What really happened was that the Fed cut interest rates by half in 1970-1971, and then started raising them in 1973 to combat rising prices. By the time the recession started in November 1973, the Fed Funds rate peaked at just over 10%. It isn't as if the oil embargo didn't cause disruption in the economy; it did, but most of the economic disruption was caused by the government's price controls and rationing. But it didn't cause the recession.

Next, GDP peaked in April 1978 (gasoline-PPG $0.631) and declined until October 1980 ($1.223). Recall that price inflation almost hit 15% in 1980. The recession started in January 1980 ($1.11) and ended in July 1980 ($1.247). Gasoline prices continued to increase during the subsequent recovery. There is no correlation between oil prices and recession or price inflation.

GDP peaked again in Q2 1981 ($1.353) and bottomed out in November 1982 ($1.268). We went into recession in July 1981 ($1.353) until November 1982 ($1.268). You can see an oil price correlation here, but other things were going on: high inflation. By June 1981, the CPI was still over 10%. Carter had appointed Paul Volcker as Fed Chairman in August 1979 and he started raising the Fed Funds rate from around 10% until it reached 19% in January 1981, and kept it high (8% to 10%) for much his term (ended in 1987). This broke price inflation (it settled in the 3.5 to 4.5 range). Thus monetary policy rather than oil prices was the cause of the recession.

From then on, gasoline prices declined and remained relatively stable until 1999 ($0.90 to $1.30) when it started climbing again. The July 1990 ($1.139) to March 1991 ($1.138) recession shows that GDP peaked in late 1987 (about $0.95) and gasoline prices peaked in January 1991 ($1.304) and the recession ended in March 1991. But again, other things were driving the economy: a real estate boom-bust cycle, and that was largely driven by cheaper money and accelerated depreciation rules (those rules ended in 1986).

Prices fluctuated but remained in the $1.20s for most of the next eight years.

By 1999, the rise in gasoline prices coincided with peak GDP in late 1999 (Dec., $1.353) and gas prices rose, almost steadily since then. The 2001 recession came and went (March-$1,503) - November-$1.324). But, what else was going on? This was a time of incredible production and technological innovation that again benefited from the Fed's cheap money (spurred by Greenspan to revive the economy from the 1990 - 1991 recession). It worked. But Dot Com boom turned into Dot Bomb bust as the Fed raised interest rates and cooled the economy off from its "irrational exuberance".

The Fed decided it needed to stimulate the economy from the bust and from November 2000 to June 2004, the Fed lowered interest rates from 6.5% to 1.00%. From then on oil prices followed commodities prices and gasoline prices continued to climb.

By late 2003 ($1.578) the rate of growth of GDP peaked and thereafter was slowing, although it continued to grow until January 2006 ($2.359). At this point, the Fed again sought to cool down the economy and the Fed Funds rate went from 1.00% up to 5.26% by July 2007. Again, it worked and the real estate markets began to come apart. By H2 2008 ($4.142), GDP began to decline, thus beginning the bust phase of our current boom-bust cycle. Current price is $3.591.

Thus, while you can argue that rising oil and gas prices may have had some negative effects on the economy because of some economic disruption, in every case, the cause of our recession was anything but rising prices.

Regardless you are still going to hear that rising oil and gas prices are going to ruin the economy and cause us to go back into recession. While I believe the economy will decline starting in H2 2012, the reasons have nothing to do with oil prices. Don't let the pundits scare you with this economic fallacy. There is enough to worry about.

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28. CHEAPER BATTERY POWER HERALDS ELECTRIC CAR

WASHINGTON, Feb. 27 (UPI) -- Advances in longer-lasting lithium-ion batteries will make electric cars more affordable and easier to introduce on a large scale, a new study said.

Envia Systems, which says it achieved world record energy density for lithium-ion batteries at half the price, outlined reasons that make affordable mass-market electric vehicles "dramatically closer to commercialization."

The company says development of its proprietary lithium-ion batteries will slash the prices of 300-mile electric cars.

"Envia has achieved world record energy density for lithium-ion batteries," the company said. The "unprecedented energy density, combined with the use of low-cost materials and manufacturing processes," cuts the cost of a vehicle's battery pack by more than 50 percent.

The battery's performance was verified by the electrochemical power systems department at the Naval Surface Warfare Center, Envia said.

The tests indicated the highest recorded energy density of 400 watt-hours per kilogram for a lithium-ion cell.

Historically, lithium-ion battery energy densities have increased by about 5 percent per year, while Envia says that in the last two years it has nearly tripled the energy density of their battery cell to achieve the record.

Envia received grants from the Advanced Research Projects Agency-Energy and the California Energy Commission in 2010 to develop high energy density batteries for electric vehicles.

General Motors Ventures LLC participated in an equity investment round of $17 million in 2011 and secured the rights to Envia's patented advanced cathode material for future electrically powered vehicles manufactured by GM.

The cathode uses abundant low cost materials such as manganese which lower the overall battery cost while maintaining stability and long life cycles, Envia said.

The company is developing high-performance silicon-carbon composite anode and high-voltage electrolytes with the aim of further optimizing the battery's performance.

The development also the number of cells needed for an electric vehicle may be reduced by about half.

Battery life is one of the key concerns often expressed in the ongoing debate over electric cars. Consumers choosing to switch to electric cars don't want "range anxiety" -- worry over when the battery may run out.

"Envia's achievement addresses both issues head-on," the company said. The technical breakthrough will go some way toward mainstream manufacturing of electric vehicles.

However, consumers will still be looking toward removal of concerns over cost, an increase in the range between battery charges and greater safety on the road before making a large-scale switch from gasoline-powered vehicles to electric cars.

Major automakers, including Ford, General Motors, Honda, Mitsubishi, Nissan and others, are producing all-electric cars. BMW has announced plans for a new all-electric model in 2013 and China's BYD and South Korea's Hyundai have advanced plans to produce more battery-efficient all-electric cars.

Analysts said a major hurdle in a large region, including the Canadian and U.S. auto markets, would remain the lack of a battery charging infrastructure over huge distances.