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CALGARY BUSINESS

MONEY • ENERGY • TECHNOLOGY • WORK

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Oil price slides on demand forecast

DINA O'MEARA
 CALGARY HERALD

Crude oil prices dropped sharply Tuesday to a low of \$90.13 per barrel after the International Energy Agency said record fuel prices would slice demand by 500,000 barrels a day by the end of the year.

The Paris-based agency went on to forecast world oil consumption in 2008 would fall to 67.7 million barrels per day, down 300,000 barrels from its previous estimate as global economies slowed.

The report swept notions crude would hit \$100 this year right off the shelf, with frantic traders immediately pushing futures down its steepest decline in three months. The sell-off came on the heels of last week's record \$95.66, with crude futures closing Tuesday at \$91.77 per barrel.

"The demand data that we saw today really took the market by surprise," said analyst Chris Theal with Tristone Capital Inc. "This is entirely a demand-driven report, and it's bearish."

The street was looking for a 12-million-a-day global draw on inventories heading into the winter, and a significant draw in the heating season.

However, Tuesday's report revised estimates, slashing global consumption in half, to around 600,000 barrels during the last quarter of the year.

"This market has been discounting a fundamentally tight market for the second half of 2007," Theal said. "What it's showing is we're starting to see concern about the pace of economic growth and consumption, and the demand numbers are quite negative."

"We're going to break through the \$90 mark on the downside very shortly," he said.

Oil prices have climbed 55 per cent in value in the past year, benefiting resource-rich Alberta and Canada's economy with an 18-per cent rise in the dollar since January.

The downside of Canada's "petrodollar" has been lower exports and a shrinking trade surplus with its largest trade partner, the United States, to \$5.4 billion, as well as Canada's lowest world trade deficit in nearly a decade, \$2.6 billion.

The toll of surging oil prices on industrial countries has resulted in a slower global economy and calls for major oil producers to hike production and soften the market with increased supply.

The Organization of Petroleum Exporting Countries agreed to increase output by 500,000 barrels per day starting Nov. 1, but analysts at the time said a bigger increase would be needed to soften prices.

The organization said it would not be discussing further cuts at its summit meeting this week in Riyadh.

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David Watson says the city has broken records for building permits, with over \$5 billion in the first 10 months of the year. Calgary may be on track for as much as \$6 billion in construction projects this year.

Building record falls with \$5B in permits

Construction mark surpassed with two months left in 2007

GEOFFREY SCOTTON
 CALGARY HERALD

In just 10 months this year, Calgary has obliterated the already-stratospheric annual record for construction value in the city, with projects already on the books valued within a hair of \$5 billion.

The City of Calgary said Tuesday that between January and October, it issued building permits valued at \$4.96 billion, eclipsing the nation-leading record of \$4.96 billion Calgary set in all of 2006. The city's construction business is running 26 per cent ahead of where it was at the end of October a year ago.

"The fact we have two months left and have already surpassed last year's total construction value gives a clear picture of just how hot the building and development climate is in Calgary," said David Watson, the city's general manager of planning, development and assessment. "The atmosphere is so busy and momentum in the economy so strong that Calgary may be on track for as much as \$6 billion in construction projects this year."

"It's a figure that is possible."

Top 10 City of Calgary building permits October 2007 by dollar value

PROJECT	TYPE	VALUE
Eighth Avenue Place	Office	\$20,000,000
Glenmore Professional Centre (Phase 2)	Office	\$40,000,000
Assent (Condominiums)	Apartment	\$12,291,000
Great Plains Distribution Centre (Building A)	Warehouse	\$16,123,550
Great Plains Distribution Centre (Building B)	Warehouse	\$16,123,550
Bella Casa (Condominiums)	Apartment	\$14,000,000
Millard Refrigerated Services (Phase I)	Warehouse/Office	\$11,029,213
New District #1 Panorama	School, Public	\$8,091,100
Elementary School	School, Public	\$10,000,000
Millard Refrigerated Services (Phase II)	Warehouse	\$6,442,169

SOURCE: CITY OF CALGARY DEVELOPMENT AND BUILDING APPROVALS

"We're going to be north of \$5 billion, that's for sure," said Watson. "It indicates we still have a pretty strong economy and people are still optimistic about what's going to happen in the future."

The accelerating pace of Calgary's frenzied construction sector was also reflected in the monthly figures for October, which hit \$646 million, with non-residential building rising to \$405 million, up a staggering 42 per cent from the same month of 2006. The overall figure in October 2006 was \$442.7 million and year-to-date last year was \$3.9 billion.

"It's a bit surprising. There's a lot of momentum in this economy," said University of Calgary economist Frank Atkinson, who attributes the strength in construction to a backlog of demand. "Downtown, almost every corner has construction cranes."

Rising costs for materials and labour are also clearly playing a role in lifting the numbers, said Watson. "There is construction inflation going on, not only in Calgary, but in Alberta," he noted. The latest October numbers were boosted by major permits issued for office and commercial projects that included Eighth Avenue Place at the

west end of downtown. Phase 2 of the Glenmore Professional Centre, two buildings at the Great Plains Distribution Centre and Phase 2 of Millard Refrigerated Services.

"It's encouraging we're seeing the non-residential continue to grow, it's higher than the residential. That really is part of the driver," said Watson. "Residential is important, but the real measure I think of the strength of the economy has to be on the non-residential side."

Values among major commercial projects ranged from the \$20-million Eighth Avenue Place office development to the \$8-million Panorama Elementary School to \$1 million for renovations at the Chinook Centre Office Tower.

Calgary's residential construction sector is still growing in 2007 compared to last year, with \$2.5 billion in housing construction permits issued during the January to October period, a 12 per cent increase from a year ago when the running total for homes was just over \$2 billion.

Nonetheless, the increased price of new home construction — and the declining pace of new home construction — is clearly evident in the city's figures over the 10-month period. For 2007, the average permit value for 4,977 single-family homes was \$20,010, up sharply from the average \$17,062 for 6,089 new singles in 2006.

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MARGIN CALLS

Merrill touts bullish image

LOGO • Merrill Lynch is resorting to its trademark bull logo to convince the world it is in good shape, despite taking its biggest quarterly loss ever.

The U.S.-based investment bank has taken out a full-page advertisement in the Financial Times and in the New York Times as it starts an advertising blitz to explain to investors, employees and global opinion-makers why it is still "bullish" about its prospects after recent write-downs for \$8.4 billion.

Investment bank Merrill Lynch & Co Inc. is reacting to recent negative sentiment over the biggest quarterly loss in its history relating to risky U.S. subprime mortgages, which has forced out its chief executive and sent its shares diving.

According to an informal email seen by Reuters, the bank also plans to place an advertisement in other publications later in the week and on various websites including those of the FT, the New York Times, Bloomberg, CNBC and MSNBC.

MBNA launches green credit card

REWARDS • For every purchase consumers make on the new green credit card that MBNA Canada Bank launched Tuesday, the bank will purchase carbon offsets, although the fine print notes there's no guarantee it will help the environment.

The Eco-Logica credit card will work like a rewards program, said Will Curley, business development executive for MBNA Canada Bank.

For every \$100 worth of purchases, MBNA will donate 50 cents toward carbon-offset projects that will vary each quarter. The first project supported will offset the methane emissions from cows at Bows Dairies in Indiana. The methane is captured and converted into biogas heat and electricity.

"We are going to try to find Canadian projects when it's viable," said Curley, noting that MBNA's parent company, Bank of America, decides where the money goes. "I wouldn't say there won't be Canadian projects. We'll continue to look at those."

HERALD ENERGY



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