

## NEWS

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Last updated at 11:42 AM on 24/03/08

## Financial markets volatility could affect development plans

### Construction of new refinery

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The Packet

When it comes to loaning and investing money, many banks are nervous these days.

Given that many of them have had to write off millions of dollars worth of bad loans as a result of the sub-prime mortgage fiasco in the United States, finding the funds for a billion dollar project is a little more challenging than it would have been six months ago.

That's what Roland Butler, manager of community and environmental affairs for the Newfoundland and Labrador Refining Corporation (NRC), told a meeting of municipal leaders at Clarenville earlier this month.

"Everything was going great until up until last August. Then, there was a strong downturn in world stocks markets, and for the first time the public started hearing about this thing called sub-prime mortgages," explains Butler.

Despite the foreclosures on mortgages in the U.S. through the autumn and early winter, the markets appeared to rebalance and stabilize.

"We seemed to be back on track financially, in the global sense," says Butler.

Since the New Year, however, there's been more news of major write-downs and write-offs by American banks.

"And you might not think it has an effect on the average person, but for major projects and major financing opportunities, it does change things.

"For the past three months, investment sentiment is negative.

"A lot of money has evaporated through bad loans," says Butler, noting \$24 billion in write-offs by Citigroup, \$1.7 billion by Goldman Sacks, \$15 billion by Merrill Lynch, and \$6 billion in defaulted loans from the Bank of America."

NLRC is hoping to find banks or major investors to finance the multi-billion dollar refinery.

On the positive side, he says, oil is still at a good price.

But it's not the price per barrel that determines the feasibility of refining, but the price consumers pay for the final product.

"What's happened in the last few months is that the price of oil has increased faster than the prices of fuel products have increased," explains Butler. "So a refinery has to buy more expensive oil and sell its products for higher prices, but at a slower rate of increase. So the gaps (profit margins) are getting smaller."

In that climate of smaller profit margins, the stock value of many American refineries has taken a hit, according to Butler.

"Their stock prices have declined by as much as a third, or even a quarter, because they're not making as much money."

He adds, some of that is a seasonal scenario, simply because the Americans are not yet into vacation mode.

"Refining margins tend to improve during the summer driving season," he notes, "and if the price of oil falls back, but the price of fuels stays the same, it would be a benefit to refining companies."

Despite the stomach churning events in world markets, there are people with money seeking investment opportunities in North America.

"There is money, but most of it is concentrated in the Middle East and South Asia," says Butler.

#### Other hurdles

In the meantime, the people who hope to build a refinery on the shores of Placentia Bay have other hurdles to clear.

The project has passed the province's environmental inspection process; all that's left now is for Cabinet to give the okay.

The federal environmental assessment continues.

The deadline for public comment was Jan. 24.

Butler says all the comments are being assembled by the Canadian Environmental Assessment Agency, into a report for Environment minister David Baird.

"We're being told it's being given priority, that it's going through the process. So we're just waiting for that process to take place."

Meanwhile, the company is continuing preparatory work - work that does not involve major construction or big spending.

Design work is continuing, and last week the company announced it would move toward producing more ultra low-sulfur diesel and jet fuel. This decision is based on advice from KBC Advanced Technologies, a leading consulting firm to the global refining industry.

The company also noted in a press release last week that it has received proposals from several major banks and investment banks offering advisory services that include debt and private and public equity structuring and placement.

"Receptiveness towards the project's economic fundamentals has been positive and there is continued confidence in the ability to attract capital," the release continues. "However, caution has been expressed that the timing and amount of any financing is subject to capital market conditions. In particular, it is noted that conditions in debt capital markets remain challenging and the timing of any improvement in those markets is uncertain."

As Butler outlined the challenges facing the hopeful builders of the new refinery, he noted another positive point.

"The whole idea of market demand and need for more refining capacity hasn't changed. It's still there."

Acknowledging there's a lot of local speculation that the new refinery will be built, Butler says, "We've made good progress over the past two years, people have been very supportive. But just because we've had two years of progress doesn't guarantee anything 100 per cent."

While the company has done some survey work at the proposed site, Butler says major construction can't start until the company gets final environmental approvals and money.

"We can't put a shovel in the ground until we get the environmental assessment . . . and are assured we have a large chunk of the financing in place."

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