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SNOWBIRD SUNSPOTS

WestJet adds two Mexican destinations to its schedule

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MEGA-DEALS SOAR

Private equity buyouts smash records in Canada

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CALGARY BUSINESS

MONEY • ENERGY • TECHNOLOGY • WORK

EDITOR: CHARLES FRANK 235-7465 FAX: 235-7358 WWW.CALGARYHERALD.COM • THURSDAY, AUGUST 16, 2007

MARGIN CALLS

Natural decaf coffee brewing

AGRICULTURE • Ethiopia plans to start commercial production of a coffee variety with naturally low caffeine that was found growing in the wild, its agriculture minister said Wednesday.

Decaffeinated coffee accounts for 10 per cent of total coffee sales in the world, a multibillion-dollar industry. Natural decaf brews could dominate over the current chemically caffeine-reduced options in today's health-conscious market.

"Coffee research centres are in the process of planting seedlings of natural coffee with low caffeine varieties, to enable Ethiopia to supply the world market within the shortest possible time," said Abera Deressa, state minister of agriculture and rural development.

In July 2004, a Brazilian scientist, Paulo Mazzafera, declared he had discovered a variety of naturally decaffeinated coffee from 6,000 specimens collected in Ethiopia in the 1980s.

The find sparked a dispute with Ethiopian authorities, who accused him of taking the bushes without permission.

The country prides itself as the origin of coffee, which is said to have originated in the Kafa region, a misty forested highland area in the southwest. The nation is also the continent's biggest producer and consumer of the bean.

The decaf coffee could prove a hit with coffee lovers who like the drink's rich aroma and taste but not its caffeine. It could also generate much-needed income for poor Ethiopian farmers, economists say.

Abera, who spoke at a coffee research conference, also urged researchers to seek coffee varieties with higher yields. He attributed Ethiopia's low yields to poor management and lack of initiative, owing to low and fluctuating world coffee prices.

REUTERS

Alliance Atlantis takeover finalized

MEDIA • **CanWest Media Works Inc.** and **Goldman Sachs Capital Partners** on Wednesday said they have completed their acquisition of **Alliance Atlantis Communications Inc.**

Shareholders of Alliance Atlantis, the Toronto-based specialty television group, will receive $53 per share in a deal worth $2.3 billion.

CanWest will run Alliance Atlantis's 13 specialty channels, which will be merged with CanWest's conventional TV networks in 2011.

Further, **Movie Distribution Income Fund** said it completed the sale of its 49 per cent indirect interest in **Motion Picture Distribution. EdgeStone Capital Partners**, an affiliate of **Goldman, Sachs & Co.**, bought the stake.

The income fund plans to redeem its units from shareholders for $10 on Friday, the company said in a statement. The income fund will make a proportionate distribution payment of four cents per unit for the first 14 days of August.

CanWest is the parent company of the Calgary Herald.

FINANCIAL POST

HERALD ENERGY

Enmax Corp. CEO Gary Holden says the booming economy is boosting costs and cutting into profits.

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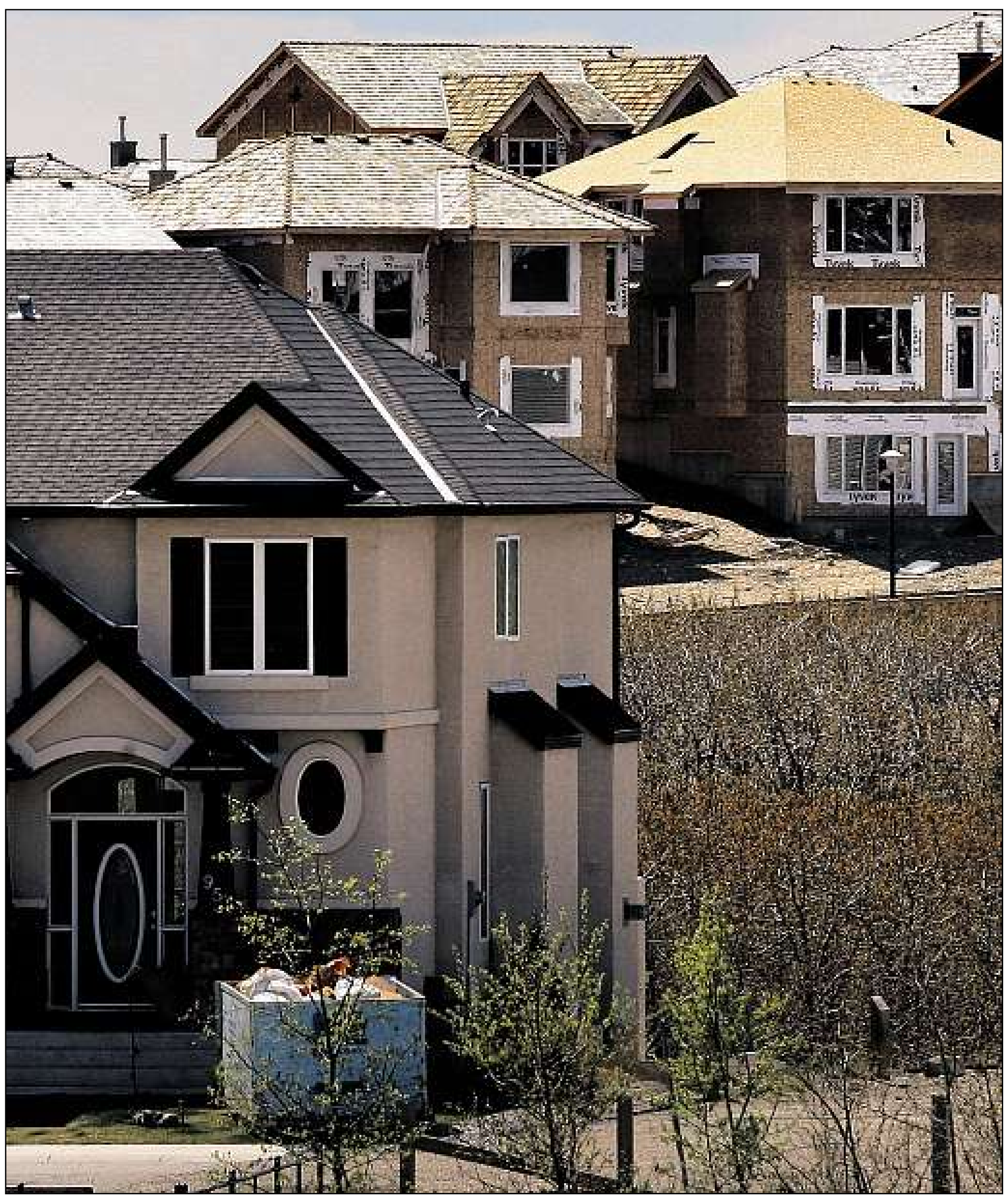
PRICES DETER BUYERS



Ted Jacob, Calgary Herald

The rapid escalation in prices in the Calgary area is one of the factors that will continue to cause a drop in construction of new houses, says CMHC economist Richard Corriveau.

Housing starts tail off

New homes lose ground to resale market

CALGARY HOUSING MARKET OUTLOOK

	2006	2007 (projected)	% change	2008 (forecast)	% change
Housing starts	17,046	14,750	-13.5%	14,100	-4.4%
MLS sales	33,027	34,000	2.9 %	32,500	-4.4%
MLS average price	$346,675	$425,000	22.6%	$467,500	10.0%

Source: Canada Mortgage and Housing Corp.

MARIO TONEGUZZI
CALGARY HERALD

Housing starts in Calgary will ease in the next two years despite the record low unemployment rate and an "abundance of job opportunities" in Alberta, but the average price of a resale home will continue to rise, says a national report released Wednesday.

Canada Mortgage and Housing Corp.'s third-quarter Housing Market Outlook predicted the average Multiple Listing Service price (single-family home and condominium) in the Calgary Census Metropolitan Area will jump by 22.6 per cent this year to $425,000 and increase another 10 per cent in 2008, to $467,500. The average price was $346,675 in 2006.

At the same time, MLS sales are expected to increase by 2.9 per cent to 34,000 this year compared to 33,027 in 2006. In 2008, they are forecast to drop by 4.4 per cent to 32,500.

Housing starts in the Calgary-area market will decline by 13.5 per cent in 2007 to 14,750 and a further 4.4 per cent in 2008 to 14,100. There were 17,046 housing units started in 2006.

Richard Corriveau, regional economist for the Prairies and territories region for CMHC, said a number of factors are contributing to the forecast decline in housing starts in the next two years.

"One is the escalation in prices. That's perhaps one of the most dominant. The New Housing Price Index (Statistics Canada) increased 70 per cent the last two years," said Corriveau. "So people are creating some risk — especially for first-time buyers.

"For repeat buyers, the good news is they can capitalize on the price appreciation of their current home. For first-time buyers, they don't have that same benefit. That will pose some difficulty, and quite frankly, some buyers won't accept the cost escalation (in new homes)."

Another factor in lower housing starts is the competing resale market, where active listings have increased "tremendously" compared to a year ago, said Corriveau.

Other factors include weaker net migration to the province and modestly higher mortgage rates.

Deep Shergill, president of the **Calgary Region Home Builders Association**, said the CMHC's forecast of a more than 13 per cent decline in housing starts this year "doesn't seem unreasonable and we're quite a bit slower than we were last year."

"Basically, we had a lot of sales in 2005 that spilled over into 2006, and if there's going to be another four per cent slowdown next year, that still means we're going to be way ahead of our normal numbers. I don't think I would be too concerned," said Shergill.

"When I look at the land supply out there, there really isn't much out there. We're barely being able to produce what we have."

SEE HOUSE, PAGE B6

FINANCIAL MARKETS

Jitters trigger fresh cash injection

Central bank likely to cut rates, economist says

ERIC BEAUCHESNE
CANWEST NEWS SERVICE
OTTAWA

The Bank of Canada, in a new bid to reassure panicky investors, on Wednesday accelerated its efforts to pump more money into domestic financial markets, which are being roiled by a deepening global credit crunch.

Its unprecedented move, however, didn't prevent another steep drop in the Canadian dollar and the stock market, both of which plunged further to their lowest levels in three months.

The central bank announced it will temporarily accept some non-federal government securities as collateral for its one-day loans to financial institutions to ease the credit crunch. The announcement came a day after some issuers of commercial paper were temporarily unable to raise funds to refinance billions of dollars in maturing issues.

The action is a "step in the right direction," but may not be enough for financial systems "under significant stress," said Clement Gignac, chief economist at the **National Bank of Canada**, which in the wake of the credit crunch has boosted its odds of a U.S. recession to 50-50.

The chances of a recession in Canada are no more than 30 per cent because of the country's healthy public finances, stronger housing market and its status as a net exporter of natural resources, Gignac said.

Gignac said Wednesday's cash infusion increases the chances the Bank of Canada will have to cut interest rates rather than increase them as it suggested it would next month. Central banks in Canada and the U.S. will have to change their focus from fighting inflation to stimulating their economies, he said.

The bank's actions, which match those taken by the U.S. Federal Reserve last week, came as the Canadian dollar slipped below 93 cents US, down more than three cents from last month's triple-decade high of over 96 cents.

The loonie ended the day at 92.78 cents, its lowest level since May, and down from 93.75 cents on Tuesday. Meanwhile, Bay Street's benchmark stock market index plunged nearly 200 points, and Wall Street's fell nearly 170 points.

"As part of its continuing provision of liquidity in support of the efficient functioning of financial markets, the Bank of Canada . . . is temporarily expanding the list of collateral eligible for use by market participants in special purchase and resale agreements," the Bank of Canada said in a statement.

Late last week the bank, for the first time since the Sept. 11, 2001 terrorist attacks, publicly reassured markets it would provide enough liquidity to support financial markets through one-day purchases of securities from financial institutions, leaving them with extra cash for lending.

On Wednesday, the bank injected $350 million into the financial system, about half the amount it pumped into the system at the start of the week and only a fraction of the roughly $1.6 billion it injected in each of the final two days of trading last week. The U.S. Fed, meanwhile, plowed $7 billion US into that country's financial system to meet demands for cash.

Finance Minister Jim Flaherty's office did not respond Wednesday to queries on the financial market crisis, but Prime Minister Stephen Harper, following this week's cabinet shuffle, stressed that Canada is in good enough economic and financial shape to weather the storm.

"Canada will not be immune to fluctuations in the international marketplace nor will individual firms be immune," Harper said. "That said, we should be very clear the fundamentals of the Canadian economy are very strong as are the fundamentals of our banking and financial sector generally."

OILSANDS CONSTRUCTION

Strike threat eases after unions accept deal

LISA SCHMIDT
CALGARY HERALD

Threats of a strike that could halt work on huge oilsands projects have eased after four out of five Alberta construction trade unions that had voted to walk off the job accepted a new contract.

Barry Salmon, spokesman for the groups, said Wednesday that unions representing electricians, plumbers and pipefitters, refrigeration mechanics and millwrights have accepted a four-year agreement that includes protection against Alberta's soaring inflation rate. The tentative agreement has yet to be ratified.

If union members approve the deal, they'll avert what would have been the first strike to affect the province's oil and gas industry in more than two decades.

Alberta's labour laws prevent strike action if 75 per cent of the province's construction unions accept contract terms, heading off the ability of remaining unions to legally walk out.

"Provided that we still have at least 25 per cent of the trades unsettled, strike is still an option," Salmon said.

"But I think it is good enough to pass."

The five trades, which include boilermakers, voted to strike in late July. The unions have been without a contract since May 1.

The Construction Labour Relations of Alberta, which negotiates on behalf of individual oilsands operators, said 15 out of 25 unions have ratified contracts.

"It's positive — it will produce some measure of relief for owners and contractors because it would eliminate the probability of strike action," said spokesman Neil Tidsbury.

"On the other hand, we're trying to settle them all. We haven't gotten into this thing looking for arbitration."

Under the tentative agreement, the unions will get guaranteed minimum increases of 23 per cent over a four-year contract. If the Alberta inflation rate is higher than the annual increase, workers will receive that rate plus one per cent.

"I'm very pleased with this offer," said Tim Brower, business manager of IBEW 424, which represents electricians.

"I believe it allows the contractors the certainty they desire while protecting my members and their families from watching the value of their wages shrink while costs soar over the course of a longer contract."

The new offer also offers retroactive pay if the agreement is passed by members before Sept. 11.

The contract does not address "quality-of-life" issues such as transportation to and from the job site. Most of the work is in Fort McMurray, while the majority of skilled tradespeople reside in places like Calgary and Edmonton. However, Salmon noted employers appear willing to work on such concerns.

The unions had also wanted shorter contract terms — two- or three-year deals — as opposed to four years demanded by the employers.

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INVESTING

Buffett's Berkshire takes an interest in Dow Jones

Omaha investor also quadruples holdings in health insurance

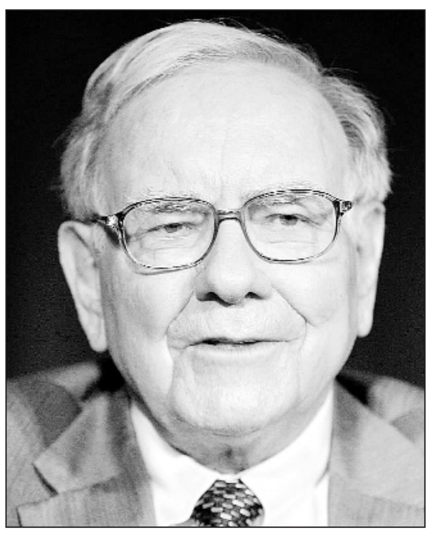
JOSH P. HAMILTON AND ERIK HOLM
BLOOMBERG
NEW YORK

Warren Buffett's **Berkshire Hathaway Inc.** took a position Wednesday in **Dow Jones & Co.**, the latest target of Rupert Murdoch's **News Corp.**, and more than quadrupled its holdings in the two biggest U.S. health insurers in the second quarter.

Berkshire held 2.78 million Dow Jones shares on June 30, the Omaha, Neb.-based investment firm said in a U.S. Securities and Exchange Commission filing Tuesday. The company didn't report a stake in the Wall Street Journal publisher in the previous quarter, though SEC rules allow some disclosures to be delayed.

Dow Jones, which accepted Murdoch's $5.2 billion US offer Aug. 1, presented an opportunity for Berkshire even though Buffett didn't consider the company attractive as an acquisition target. Murdoch's $60-a-share bid was 65 per cent higher than Dow Jones's share price before his overture became public May 1. In the intervening months, the stock averaged $56.

"There's no way he would have bought this company outright, especially in a bidding war, but he loves arbitrage," said Mohnish Pabrai, who oversees about $600 million, including shares of Berkshire, as managing partner at **Pabrai Investment Funds** in


Herald Archive, Bloomberg
Warren Buffett did not consider Dow Jones attractive as an acquisition target in May.

Irvine, Calif. He probably bought the stake after Murdoch's May offer, figuring $60 was a "pretty certain thing," Pabrai said.

Buffett, who took control of Berkshire four decades ago, seeks bargains on out-of-favour stocks and companies. The 76-year-old billionaire chairman transformed a failing textile manufacturer into a holding company with a $170 billion market value and interests in dozens of industries as diverse as insurance and candy making.

Berkshire, which owns the Buffalo News and is the largest shareholder in **Washington Post Co.**, wasn't a suitor for Dow Jones, Buffett told reporters after Murdoch made his move in May. The price News Corp. floated involved an "ego" premium beyond Dow Jones's economic value, and the Internet is destroying the business model for newspapers, he said.

Dow Jones shares were unchanged in New York Stock Exchange composite trading. Berkshire advanced $1,050, or one per cent, to $111,200.

The timing of Berkshire's purchases is sometimes unclear because Buffett requests the SEC's permission to keep certain positions temporarily confidential to avoid copycat investing. A review of the company's quarterly SEC filings showed it hadn't disclosed any stake in Dow Jones for at least five years, though Berkshire may still amend filings for past periods.

As for other industries, **United-Health Group** and **WellPoint Inc.**, the country's two biggest health insurers, were increasingly appealing in the second quarter, as was **Johnson & Johnson**, the world's largest health-products company, and **Sanofi-Aventis SA**, France's largest drugmaker.

Berkshire's stake in Minnetonka, Minn.-based UnitedHealth rose to 4.8 million shares on June 30 from 1.02 million on March 31, Tuesday's filing shows. The holding of Indianapolis-based WellPoint increased to 4.2 million shares from 979,700. The Johnson & Johnson position rose 9.2 per cent to 53.1 million shares, while Sanofi quadrupled to 3.53 million American depositary receipts.

UnitedHealth shares rose 64 cents, or 1.3 per cent, to $49.12; WellPoint increased $1.42, or 1.8 per cent, to $78.39; Johnson & Johnson gained 17 cents to $61.30, and ADRs of Sanofi fell 89 cents, or 2.2 per cent, to $38.82.

Bank stocks proved attractive to Berkshire too. The company showed its first stake in **Bank of America Corp.**, the second-largest U.S. bank, in at least five years. It held 8.7 million shares on June 30.

FROM E1

HOUSE:

'A little more realistic'

"This year, the numbers are a little more realistic," said Shergill.

The Calgary CMA includes the city, Airdrie, the Municipal District of Rocky View, Chestermere, Cochrane, Irricana, Beiseker and Crossfield.

Also on Wednesday, the Canadian Real Estate Association reported MLS resale housing activity in Canada's major markets set a fourth consecutive monthly record in July, with seasonally adjusted sales totalling 31,667 units — an increase of 0.8 per cent from the previous month.

The major-market MLS residential average price rose 13.1 per cent year-over-year to $332,442 in July — the largest year-over-year growth in average price since April 2004. The average price reached the highest monthly level on record in Calgary at $436,739, a 22.1 per cent hike from a year ago.

The CMHC report said that with lower migration and higher mortgage carrying costs, housing starts in Alberta will ease from 48,962 units in 2006 to 47,300 units in 2007 and 44,500 units in 2008. Despite the decline in housing starts, 2007 will be the third best year on record.

"Following an unprecedented 30.7 per cent gain in 2006, the average MLS price is expected to climb another 26.1 per cent in 2007 and 9.7 per cent in 2008," added the report.

For Alberta, the average MLS price is forecast to increase this year to $360,000 from $285,383 in 2006 and increase again in 2008 to $395,000.

Nationally, the CMHC said housing starts will moderate in 2007, reaching 220,000 units, a decrease of 3.2 per cent from 2006. Residential construction will continue to decline in 2008 to 207,200 units, yet will mark seven consecutive years in which housing starts exceed 200,000 units.

Existing home sales across the country, as measured by MLS, will register their best year on record with 514,450 units in 2007, a 6.5 per cent increase over 2006. The record activity in the Prairies will be a key factor leading to the increase in the national level of sales compared to the previous year. The level of sales is expected to reach 494,750 units in 2008, its second highest level on record. Growth in the average MLS price will remain high at 9.9 per cent ($304,465) in 2007 mainly because of continued strong price pressures in Western Canada. As most resale markets move toward more balanced conditions, growth in average MLS price is forecast to slow to 5.2 per cent ($320,283) in 2008.

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BUSINESS TO BUSINESS