Corporate Knights

The Magazine for Clean Capitalism

corporateknights.ca

How livable is your city?

9th Annual
Responsible Investing Guide

A Maple Leaf Manifesto

The Most Sustainable Cities in Canada

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TUESDAY, NOVEMBER 23, 2010

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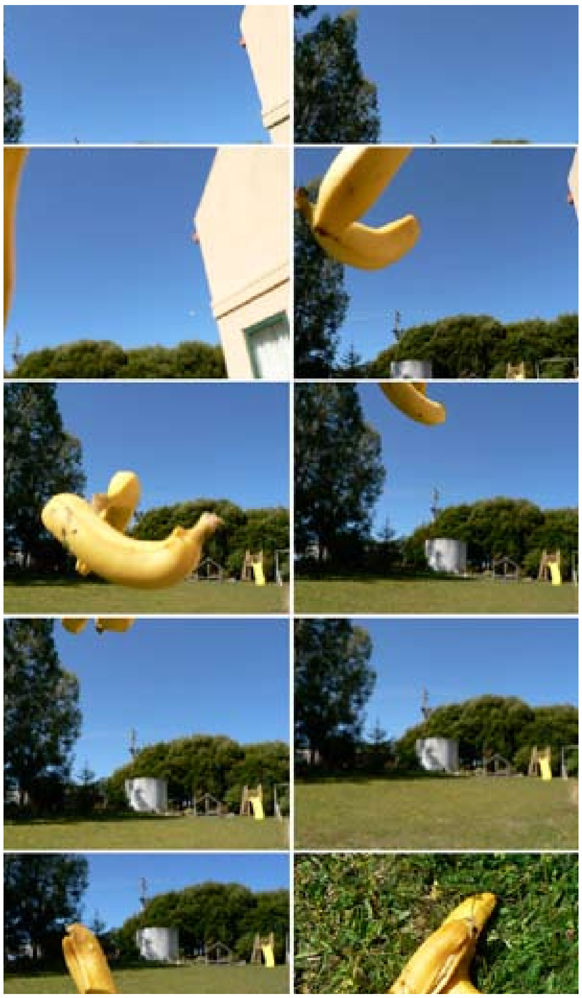


ON THE COVER:

The living city stares back at us as a stag is confronted in an urban setting.
Cover photo by Eamon Mac Mahon.

Photo: Roger Lemoyne for the Frontline Health program

A Knight's Tale

Photo: Dave Shuken

I recently lost a lot of friends—473 to be exact. I was coming to terms with a real-life episode that Woody Allen and Stanley Kubrick could have co-directed when I saw Goldman Sachs pinning a $50 billion value on Facebook. I didn't like the idea of someone making that much money from my personal relationships. So I surrendered my passport to the 500-million strong Facebook (FB) nation, and joined the ranks of China, Iran, Saudi Arabia, and Pakistan who have all at one time or another cut off diplomatic relations with President Zuckerberg.

While I no longer have free reign in my friends' photo galleries, being a digital outcast on Planet FB does have its advantages. For instance, my childhood friend who forfeited a certain reproductive organ after a seatless bicycle accident will now have more trouble tracking me down.

Of course, my symbolic act of excommunication does little to alter the age of radical transparency in which we live. Julian Assange will continue to operate the world's largest unregulated drive-in movie starring naked Emperors. And half a billion people will collectively piddle away 700 billion minutes per month poking each other on FB.

We live in a world of web-enabled gawkers where everybody is fair game. Big Brother is watching us, but this time we are Big Brother, and we are watching "them" too. Outgoing Google CEO Eric Schmidt identified this reality when he told CNBC: "If you have something that you don't want anyone to know, maybe you shouldn't be doing it in the first place."

"If you have two friends in your lifetime, you're lucky. If you have one good friend, you're more than lucky." —S.E. Hinton

When it comes to our personal lives, I think privacy is a moral right and even a requirement for sanity, as long as it is not used as a cover to trespass against others.

With regard to corporations or governments, however, the more transparency the better because, to muddle Stan Lee's phrasing: "with great power comes great transparency." The social media boom has given a stronger voice to the public, and previously untouchable corporate entities are thrown swiftly in the hot seat if they mess up—especially if they do so in, say, the Gulf of Mexico. With the new virtual toolset consumers can speak a little louder, and businesses are sure to feel the punch if they don't buck up.

Assange's Wikileaks portends to Stan Lee's dictum, but so far in an imprecise way, akin to fishing with dynamite. Advocates of transparency should instead go forth with ninja-like grace, equipped with exacting strategies of revelation to bring bad business and bad governance to light.

FB might in fact be educated on the way of the transparency ninja, making its money by collecting personal information from users and serving it up to hyper-targeted advertising campaigns—in essence corralling the many for the few.

No one is forcing FB users to pony up their personal information, but most information is given up through default settings that people don't take the initiative to change. As behavioural psychologist Dan Ariely has demonstrated, given the propensity of people to eat what is served up, the majority of people tend to choose the path of least resistance.

What if FB corralled the few for the many? Mr. Zuckerberg has pledged to invest $3 billion pot (half his fortune to date) in strategic philanthropy, and while it may not be as profitable as FB, the following idea could merit investment.

Consider a FB designed for large corporations where any of the entity's direct stakeholders could make updates. The web of relationships of the company would represent the full experience of their stakeholders—warts and all. Maybe FB isn't the venue for it, but the sentiment is there: open and unmitigated communication.

If corporations had to work around the clock for the transparent approval of the broader public, with the tenacity of an orange-tinted Jersey Shore wannabe tagging themselves in a group photo at 3 am, the world might be a little more legit. It's up to the stakeholders to demand a higher standard of their corporate suitors. And if companies live up to the demands of the public through sound, transparent reporting and a profound engagement with environmental, social, and governance issues, they may find themselves with a lot more friends. All for one, or one for all? All I know is Zuckerberg has 473 of mine.

BRB,

Toby A.A. Heaps, Editor-in-Chief

Letters & Notices

Healthy Skepticism

"Enjoyed the magazine, but [I had] a couple of quibbles. *The Killer Kernel* (vol. 9.2) points out that subsidies are a big part of the problem citing (US $5 billion) annually. But then proposes additional taxes as the solution. I'm no Tea Partier, but that just doesn't make sense. It would be nice to know more about the intended and unintended effects of supports and subsidies. They seem to have more to do with pork-barrel politics than sound economics. Adding a layer of government intervention won't accomplish much, other than to create additional public-service jobs, increase the cost of goods, and further distort the economy—unless Canada also takes steps to combat U.S. corn subsidies and the fuel subsidies that disadvantage local produce.

We've got to de-commodify food. That's a huge challenge, particularly for a country so dependent on international trade." —Peter McKinnon

Wattage Wording

I read your magazine with interest because I straddle the engineering (my job) and environmental (my lifestyle) worlds.

I saw the letter from [a reader] in your last magazine (*Sunny Optimism*, vol. 9.2) and have a comment: 15,000 gigawatts is not the global energy used last year. Watts measure the flow of energy, similar to litres per minute in a water pipe. The energy used is in watt-hours (or kwh on your electric bill). You can flow fast for a short time or slowly for a longer time and consume the same amount. Hence you are billed for kwh, not kw.

Environmental groups will get much further and with more credibility if they get the terminology correct.
—Henry Ko

**Corporate Knights* reserves the right to edit the comments and letters for grammar, punctuation and space.

The Devil's in the Chloride

At the end of your otherwise fine and useful article (*The Killer Kernel*, vol. 9.2) you make a grave mistake: "98 per cent of food advertisements seen by 2 to 11-year-olds are for products that are high in fat, sugar or sodium."

Sodium is not unhealthy or dangerous. It can be consumed in any quantity and has no known adverse effects. On the contrary, our body needs sodium for a number of important processes. Not finding sodium directly in most foods, our body has been conditioned to find it in salt: sodium chloride. Chloride being a poison when taken in excess, our body pays a heavy price for this deviation. Salt is the 'killer', not sodium.
—Dr. Joachim Trabandt, Toronto

Thank you for reading Corporate Knights—and doing so as carefully as you do. We appreciate you bringing this to our attention.

Safety First

Many readers were unimpressed by our Editor-in-Chief cycling on a city street without his helmet in A Knight's Tale *(vol. 9.2).*

"Cyclists without helmets have no brains (pun intended)."
—Carol Mather Miles (on Facebook)

". . . I saw your photo in the Health issue (vol. 9.2), bombing down some city street on your ten-speed without a helmet! Who's paying the medical bills when you get your brains splattered after being nailed by a truck?"
—Dr. Richard Streater, Ottawa.

"Why doesn't [Toby wear a helmet]? I don't think I've ever heard a good reason not to . . ."
—Emma Gilchrist (on Facebook)

LET US KNOW WHAT YOU THINK:
info@corporateknights.ca

Contributors

Frank Koller is an award-winning economics journalist, former CBC foreign correspondent, and author of *Spark*, which examines Lincoln Electric's guaranteed employment policy. (Around the Horn, *Lay off the layoffs*, p.12)

Melissa Shin is managing editor at *Advisor Group* and a contributing editor at *Corporate Knights*. She was selected as a Great Waters fellow by the Institutes for Journalism and Natural Resources in 2010. (*Your city is about to get a whole lot bigger*, p18)

Sarah Barmak is a freelance journalist and former Editor-in-Chief of *The Varsity*. Her writing has appeared in the *Toronto Star* and the *National Post*. (*The metabolic metropolis*, p.22)

Al and Mark Rosen are forensic accountants and the authors of *Swindlers: Cons and Cheats and How to Protect your investments from Them*. (*Let the hunt begin*, p.41)

Jack Dylan is a Toronto-based artist best known for his distinctive poster art. He has been a past contributor to *Corporate Knights*, and his illustrations appear frequently in publications such as the *Globe and Mail*, *The Walrus*, and *Toronto Life*. (Illustrations, *Responsible Investing Guide 2010*, p.35-44)

Shawn McCarthy is an Ottawa-based energy reporter with *The Globe and Mail*. (*Profits left on the table could build green*, p.42)

Karim Bardeesy is an editorial writer at The *Globe and Mail* and a 2011 DiverseCity fellow with the Greater Toronto CivicAction Alliance. He teaches leadership at the University of Toronto's School of Public Policy and Governance. (*Maple leaf manifesto: Canada's sustainability brand*, p.47)

Guy Dauncey is the author or co-author of nine books, including *The Climate Challenge: 101 Solutions to Global Warming* (www.theclimatechallenge.ca). He lives in Victoria, BC.

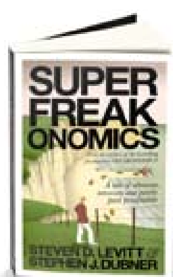
Online Comment

Eating is a non-negotiable act. You do not do it and your ecological footprint goes to zero pretty darn quick. As an organic producer myself, I can attest to the value of the horizontal trading systems. By building those relationships between other producers and consumers, we can build a stronger healthier food system. I tip my hat at you folks and your product. Well done.
—Anonymous, re: Podcast, *Virtuous Vices, Episode 1: Chocolate, Food of the Gods*

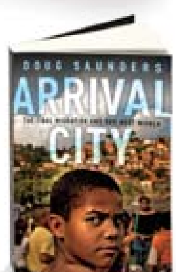
Reader Contest!

Photoshop Toby into a "safer situation" and win a one-year subscription! For details visit corporateknights.ca/safetyfirst.

What's being passed around the *Corporate Knights* office:



Superfreakonomics: Global cooling, Patriotic prostitutes, and Why suicide bombers should buy life insurance
by Steven D. Levitt & Stephen J. Dubner



Arrival City: The final migration and our next world
by Doug Saunders

Publisher's Note

After two very close mayoral races in Calgary and Toronto, a purple campaign in both turned the political tables. For the first time in years, Calgary voted more progressively than Toronto.

In Calgary, Mayor Naheed Nenshi, an academic, visible minority, beat out two other candidates including Ric McIver whose campaign was managed by Stephen Harper's own team. And Toronto former city councillor Rob Ford, unsupportive of the past administration's environmental success, took the race by a long shot over Ontario's former Minister of the Energy and Infrastructure, George Smitherman.

I spend a lot of time in Calgary and it seems Mayor Nenshi will make some significant strides. His victory was a good example of effective and diverse outreach. He won in part by using Twitter to transmit his campaign promises and progress. His campaign also offered interpreters in 23 languages to explain his platform. Since his victory he has expanded his "Better Ideas" campaign and promises more transparency at City Hall, making transit a priority and making the city sustainable, walkable, and livable. All these things are in line with how quickly the traditionally conservative city has grown and will continue to flourish in the future.

On the other hand, as a Torontonian, I can't help but remain hesitant of our new Mayor's environmental policies. While Toronto has great plans for Light Rapid Transit in place, Ford is working hard to change those provincially approved and funded plans already in the works. Still, Ford is the result of the highest Toronto voter turnout in years—over 53 per cent cast their votes in October, a fact definitely worth noting. It will be interesting to see what will stay and what will go with his new leadership, but I am hopeful that a substantial transit plan can be achieved for this great city.

Photo: Dave Shuken

"People underestimate their capacity for change. There is never a right time to do a difficult thing. A leader's job is to help people have vision to their potential." *John Porter*

Recently, I was in New York City preparing for the launch of our U.S. edition and I couldn't help questioning how a city the size of New York is sustainable. According to our report on sustainable cities, their high density due to intensification is the way to go, and megalopolises like New York could be the prescription we need to reverse climate change. To read more about sustainable cites head to page 22.

The idea of a living city is a theme that runs through this issue. Cities are alive because they are made up of all of us, among other organic things. I hope you will see yourselves reflected in some of the categories we chose to highlight in our analysis of Canadian cities, and that you remain active and engaged to do your part to make the place you live more sustainable.

Happy Reading,

Karen Kun, Publisher

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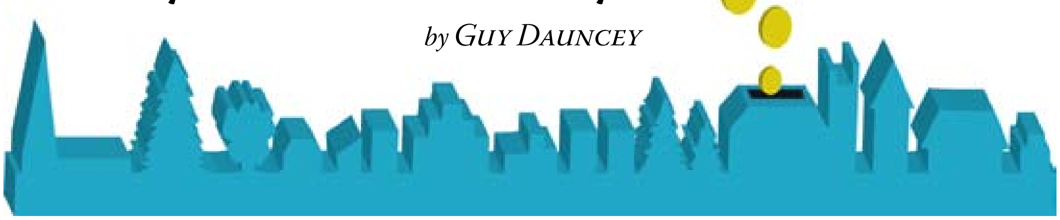
Ten ways to invest in your community

by GUY DAUNCEY



01 Slow Down. Chat and Mingle.

When thinking of investing, most think of money. But there is more to wealth. A wealthy community is rich with friends, time, beauty, and so much more. It all starts with relationships, so the next time you are out, take the time to mingle, say hello, and chat. Every new relationship is a sound investment in your community.

02 Support Locally-Owned Businesses

When compared, local business has two to four times greater economic benefit for the community than other business. They spend, employ, and donate more locally. So why not support them? By supporting a local farmers market, you will get healthy food, and help build local farms.
See *www.livingeconomies.org*
and *www.small-mart.org*

> "A WEALTHY COMMUNITY IS RICH WITH FRIENDS, TIME, BEAUTY, & SO MUCH MORE."

03 Become a Volunteer

A community may be financially wealthy, but without volunteers it's surely a "poor" community. Volunteering builds wealth, whether it's picking up the trash and talking to your neighbours while you do so, planting trees, or joining your local community association. If you volunteer with Big Brothers Big Sisters, you will be investing in love and friendship for the next generation.See *www.bigbrothersbigsisters.ca.*

04 Invite Your Neighbours to Grow Food

In Vancouver, two women wanted to grow some food so they invited their neighbours to join them. Thirteen people showed up, and started a tomato sprouting station, built a greenhouse, and held weekend work parties in each other's yards. Chickens and bees soon followed, along with a real spirit of community. See *www.bit.ly/twoblockdiet* and *www.zeromilediet.ca*

05 Organize a Block Party

When my wife and I organized a block party on our street in Victoria, we knocked on everyone's door and invited people in person. Everyone brought food and drink for a potluck, and we played an ice-breaker game to get people chatting. People loved it. The whole experience of living on a street feels friendlier once you have socialized with everyone. See *www.quezi.com/13238.*

06 Create a Public Space

Like the piazzas in Italy, a good public space forms the heart of a community, but many of North America's cities are lacking neighbourhood hearts, especially in the suburbs. In Portland, neighbours have been investing time to create their own public spaces, re-designing local intersections with street murals, and building public seating and coffee-stands, often, using sustainable methods. See *www.cityrepair.org*

07 Invest In Community Bonds

In downtown Toronto, the Centre for Social Innovation used community bonds to buy a beautiful old 35,000 sq. ft. building that will be home to over 400 people and projects. They issued community bonds to raise $6.5 million to buy and develop the building. And it worked. See *www.socialinnovation.ca/communitybonds.*

08 Join Your Community Association

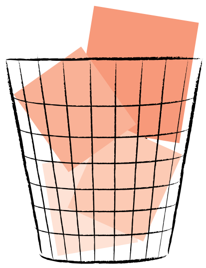
If it's well organized, fun, participatory, and positive, a good community association is the best investment. In community association people have a voice, and a way to make improvements happen. Imagine, an organization that inspired every street in the community to hold an annual block party, improve their streets' safety, and created programs for all age groups.

09 Make Your Community More Walkable

People like to walk, but it isn't easy in communities without sidewalks or walkways that are safe and beautiful. We need to invest in "walking audits," a community process that informs the local council where improvements are needed, and where new walking routes can be created. And we need to organize local traffic calming. See *www.walkscore.com* and *www.walkableamerica.org/checklist-walkability.pdf*

10 Invest in Inspiration

The Project For Public Spaces (PPS) is an international nonprofit that creates and sustains public places that build communities. The organization has worked in 26 countries to improve parks, markets, streets, transit stations, libraries and countless other places. Jay Walljasper, a fellow of PPS wrote *The Great Neighborhood Book*, "a Do-it-Yourself Guide to Placemaking." Treat yourself to some inspiration, and invest time in your public spaces. See *www.pps.org* and *www.newsociety.com/bookid/3943.*



Lay off the layoffs

With an unemployment rate stuck at almost eight per cent, Canada needs employers to get serious about ensuring steady, sustainable work.

by *Frank Koller*

When CEOs order layoffs, invariably arguing, "We have no alternative," they're seldom able to justify exactly how those layoffs will help their company recover. That's because downsizing generally creates little financial benefit, depresses stock prices, and exposes employees to financial ruin.

The majority of senior executives have no idea if slashing large numbers of employees is a good strategy, argues Peter Cappelli from the Wharton School at the University of Pennsylvania, widely regarded as a leading expert on layoffs.

"They have no systematic way to calculate the net present-value of a layoff decision," he says. What's worse, layoff decisions are driven "by rules of thumb, and the most important one is, 'what is everyone else doing?'"

More troubling still, the track record for layoffs as a recovery strategy simply can't justify the extraordinary pain inflicted on workers, their families, and society. Many financial post-mortems on layoffs confirm this. "The larger the layoff, the less the chance of any resulting financial benefit," says the *Journal of Managerial Issues*. Or this blunt assessment by the University of Paris-Sorbonne: "Layoff announcements have an overall negative effect on stock prices, regardless of country, period of time or type of firm in question."

Are there options besides terminating a company's most valuable assets? Consider this little-known example of a firm that formally rejects the idea of layoffs.

Since the 1930s, Cleveland's Lincoln Electric has remained the dominant global player in the rapidly expanding, highly competitive market for arc welding technology. A regular on Forbes 400 and Fortune 1000 lists, Lincoln keeps investors exceedingly happy. For decades, wages have been 20 to 30 per cent above industry averages. Yet this nearly $3-billion company has defied conventional wisdom by honouring a corporate promise to its American employees to never lay them off for economic reasons—not even in the recent recession.

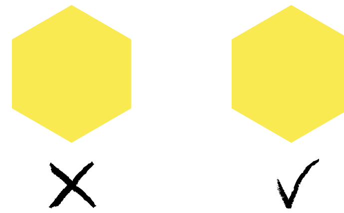
Lincoln Electric's "guaranteed continuous employment policy" isn't driven by altruism. The firm believes a stable workforce generates an unbeatable long-term competitive advantage.

In tough times, hours are reduced, people are reassigned and white-collar salaries are cut. In good times, everyone works long hours. But as long as workers meet the firm's performance standards, no one worries about losing a home or ending up on welfare. History confirms their trust is justified.

"I don't think of how we operate as a social responsibility," says CEO John M. Stropki. "I think my philosophy and that of my predecessors is that we can perform in an economically challenging environment, and we can spread the pain in a way that long term will better represent our shareholders' interests without crucifying our employee base. We think that is good business."

By any criterion that a modern capitalist economy uses to measure success, Lincoln Electric is a winner. By any criterion ordinary citizens use to measure success for society, it's also a winner.

That's the gold standard for an updated definition of corporate sustainability—and shooting for gold is what good leadership is all about.



Responsible Investors Find Same Firm "Good" & "Bad"

Depending on the criteria they use, investors can find the same company environmentally responsible and irresponsible at the same time. In *Business Strategy and the Environment*, one firm performed well for its reporting and pollution prevention, but was rated poorly for compliance. Investors need to consider multiple criteria before labelling a company either "good" or "bad."

Top Mutual Funds Exclude "Irresponsible" Firms

Mutual funds perform best when portfolio managers take an extreme view of socially responsible investing (SRI). *Strategic Management Journal* finds the most profitable mutual funds either disregard SRI entirely and focus on high-performing firms, or focus exclusively on socially responsible firms and weed out irresponsible companies with poor management. The study also found strong community relations was a key predictor of a company's financial performance.

More on Responsible Investing on page 35

This research courtesy of the Network for Business Sustainability, a Canadian non-profit established in 2005 that equips academics and managers with the best sustainability knowledge.
More at www.nbs.net/corporateknights

Powering Canada's energy future

E3 Roundtables Thought Leader Series

by Lirad Kligman

Canada, like any nation looking to build a sustainable future, faces challenges in striking a balance between the economy, energy, and the environment. The key, according to our nation's leading minds, is renewable energy.

Corporate Knights in partnership with the Energy Policy Institute of Canada (EPIC) set up a series of panels charged with developing a pan-Canadian energy strategy to deliver on our nation's full energy potential—The E3 Canadian Roundtables. Leading up to the 2011 Calgary and Vancouver panels, we spoke with some of Canada's key energy thought leaders.

Canada is unique because of our abundance of diverse resources. "[We are] strong in the East in hydro, strong in central Canada in nuclear power, and strong in Alberta in the West in fossil fuel power," says Jacques Lamarre, past CEO of SNC-Lavalin.

But it isn't all about plenty. Marlo Raynolds, executive director of the Pembina Institute, believes while Canada is rich in resources, this natural wealth has fueled inefficiencies in production and consumption. "We have this unique potential to be powerful in terms of how we produce energy," Raynolds says, "but we also have this incredible need and opportunity to be far more efficient in how we actually use energy ourselves."

For instance, we may be wealthy in our hydropower supply, but we currently aren't taking full advantage.

Canada's electricity supply consists of about 60 per cent hydropower, the largest percentage in the world. Christopher Henderson, President of Lumos Energy, insists hydropower is essential to Canada's energy future. "There are large hydro sites across Canada that can be leveraged to increase our electricity potential from hydropower to 80 or even 90 per cent of our total power base. We could take out coal. We don't need to bring in any gas. And, we can even stop using nuclear. It can also be the baseboard for how we power electric cars and other electrical transportation."

While relying more on hydropower makes sense, without a national strategy none of this matters.

Such a strategy "has been difficult to acquire in the past," says Dan Gagnier, Chairman of the International Institute for Sustainable Development. If you want to develop the full potential of a national plan while respecting the right of the provinces to manage their energy and natural resources, then you need a strategy. Then Canada could take advantage of the infrastructure build that will be required, and gain greater acceptability and access to foreign markets.

Lamarre agrees that provincial jurisdictional realities make instituting a Canadian energy strategy difficult, and he believes the Canadian federal government can help everybody understand the benefits of provincial cooperation. But it's a fine line, Lamarre stresses. "Our government should not forget that we are in a market economy. It has to be careful on everything which is not market-based."

Market economies matter most in the context of energy when you consider 98 per cent of Canada's energy exports go to the U.S. and our environmental performance is poor for a country of our size and population.

Raynolds believes it's important for the federal government to connect Canada's energy strategy with our environmental performance. "We [need to] start imbedding the true cost of environmental impacts in how we produce and consume energy," he says. Adding a real cost to the pollution we produce will provide an economic signal to the market—we have to pollute a lot less—which will drive innovation and greater efficiency. "We're so focused on our fossil fuel resources that we're not thinking about the long-term opportunity and economic diversification that could result from really investing in our renewable energy resources."

Wind power, solar energy, hydroelectricity, and geothermal energy—the general consensus: Canada has underestimated the potential for renewable energy and energy efficiency.

None of this should be surprising considering non-hydro renewable electricity only accounts for approximately 3-4 per cent of Canada's electricity generation. For a country with such a small population and such a large wealth of natural resources our mismanagement of electricity generation is, however, shocking.

Gridlocked

The Canadian Ambassador to the United States talks energy

by Jon-Erik Lappano

Ambassador Gary Doer has been a proponent of developing an east-west integrated Canadian energy strategy since his days as Premier of Manitoba under the New Democratic Party. Now stationed in Washington D.C., he deals primarily with matters of north and south. *Corporate Knights*' managing editor Jon-Erik Lappano spoke with Ambassador Doer about Canada's energy potential, and the realization of a renewable energy grid.

How is Canada's energy potential unique?

We start with so many natural advantages in energy. In terms of renewable energy—something that doesn't get a lot of attention—we have one of the highest percentages of electricity produced. That's something I think we take for granted. We're close to 70 per cent renewable energy for electricity production and if you compare that to most other countries, including the U.S., we're way beyond them. The public wants clean air and clean water, and by having renewable energy in such abundance, particularly hydropower, it's a tremendous advantage for the country.

And then, of course, we have all the natural resources for traditional fossil fuels. Most Americans believe that the majority of oil that's exported to the U.S. comes from Saudi Arabia. That's not true: it's from Canada. We're also the largest exporter of natural gas.

Accepting that there aren't any silver bullets, what is one thing the federal government can do to help Canada deliver on its energy potential?

The decision the [federal] government made to implement new coal regulations provides a tremendous opportunity for Canadian energy providers, particularly in renewable energy. The fact that in 10 to 15 years there will probably be only two coal plants left in Canada—both of which have come on stream recently, and old coal plants will not be refurbished, but replaced—provides a tremendous opportunity for natural gas which emits 50 per cent less than coal, provides a tremendous opportunity for hydro, a debate on the opportunity for nuclear, and, of course, a complimentary energy source for wind. I believe coal-fired plants are the second largest emitter of greenhouse gases (GHG), which I think represents 17 to 19 per cent. [This decision] gives opportunity for more renewable energy policy in Canada.

> "...EVERY TIME YOU DISPLACE COAL IN EITHER ONE OF OUR COUNTRIES YOU **CLEAN UP THE AIR IN BOTH."**

What is your vision on the development of a Canadian east-west grid?

When I was Premier I promoted the idea of an east-west grid. It remains to be seen whether that will happen. I never thought it would happen as a grand grid, but rather as pieces that would be put together to allow for greater energy integration east and west as well as north and south. And, since I made that speech in Toronto in 2006, there have been some modest improvements on east-west transmission—particularly when you look at the sale from Hydro-Québec to Ontario. There are negotiations going on in Western Canada. Those are long-term negotiations, but these decisions are long-term capital investments. Any time you connect or sell east and west I think it's good for the country and it's good for meeting our renewable energy targets.

And how would an east-west grid fit into the coming U.S. energy crunch?

The U.S. and Canada have similar challenges in terms of the regulatory approval of transmission lines. And we just got a new line approved from Quebec through New Hampshire. Part of what we need is much more appreciation of hydropower here in the U.S. as renewable energy. But what's absent in Washington (hydropower) is starting to be considered in [other] states which I think is useful for a) supplying energy, b) our capability in Canada to produce it, and c) every time you displace coal in either one of our countries you clean up the air in both.

What is standing in the way of such a development becoming reality?

Getting predictability about coal. You can't have an east-west grid without having customers, and the decision on coal can lead to more discussion on where the coal is going to be replaced and with what. A federal act on clean air and [regulating] coal will provide greater incentives, I think, for connections both east and west.

Photo: CP Images

The 2011 Global 100

Sustainability is emerging as a megatrend in the 21st century, and *Corporate Knights'* Global 100 Most Sustainable Corporations seeks to repurpose the balance sheet to offer real value to those companies who adhere to environmental, social and governance (ESG) criteria. The stage is set for a new system of economic measurement. Our global economy has over-stepped the limits of our planet's ecological systems capacity to maintain a stable climate. In the future, a company's success in generating wealth from constrained natural resources will be an increasingly important determinant to their success.

The Millennium Ecosystem Assessment says 60 per cent of ecosystem services that support life on Earth are being degraded or used unsustainably. The WWF's 2010 *Living Planet* report shows humanity is using Earth's resources 50 per cent faster than what it can renew.

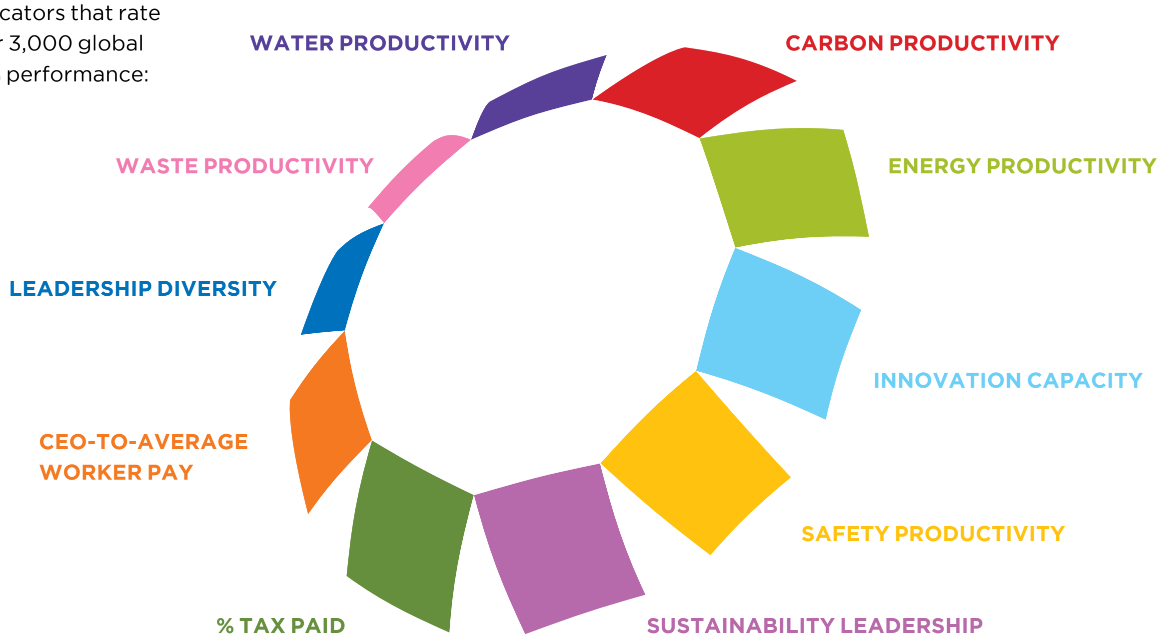
Companies have a major stake in this. Those companies who value a healthy society and environment will be ahead of the curve economically when the sustainability megatrend hits the market where it counts.

For more on the 2011 Global 100 list and methodology, visit *www.global100.org*

WHAT IS THE GLOBAL 100?

Since 2005, Corporate Knights has announced the Global 100 Most Sustainable Corporations at the World Economic Forum in Davos, Switzerland. The Global 100 is a collaborative project between CK and Inflection Point Capital Management, Phoenix Global Advisors LLC, and Legg Mason's Global Currents Investment Management. This year, additional data was obtained from ASSET4 and the Bloomberg Professional® service, with supplemental information provided by FactSet Research Systems. Every year, the Global 100 highlights those corporations that have been proactive in managing ESG issues.

The Global 100 created 10 key performance indicators that rate a universe of over 3,000 global companies on ESG performance:



Word from the top

Purdy Crawford: distinguished lawyer, eminent businessman, good governance expert

research by ALLISTER MCGILLIVRAY *&* JEAN-FRANÇOIS OBREGÓN

Public companies are three times more important to the global economy now than they were in 1980. If you look at the value of all the publicly traded companies in the world in 1980, they were worth about 25 per cent of global GDP at that time. Today, all publicly traded companies in the world are worth about 75 per cent of global GDP.

What implications does this have for the role of the publicly traded company in society today? What responsibilities should be bestowed upon them beyond simply making money?

We asked Purdy Crawford, the "dean emeritus of Canada's corporate bar" and a Companion to the Order of Canada. A tireless advocate for the strengthening and development of capital markets in Canada, he is also a volunteer and philanthropist.

One of the major issues in our market today is short-termism. The pressure to create short-term results comes from all sides. It is for this reason that I advise family-owned companies, if they want to build long-term shareholder value, and do not need public cash, not to go public.

If you focus on the long-term in building shareholder value, there is a lot of flexibility in building a great company with a great reputation that adds to shareholder value. Treating stakeholders well including employees, communities, environments, and charities can all result in creating long-term shareholder value. This can result in companies that are "built to last."

His answer echoes his visionary remarks in 2003 to the Canadian Club.

Directors are [meant] to manage the company in the best interests of the company, which is normally interpreted to mean the best interest of the shareholders. I suspect the black letter of the law has to some extent been left behind by public mores and by the recent Bell Canada Enterprises (BCE) decision in the Supreme Court of Canada. My own approach is that the purpose of the corporation is to enhance shareholder value on a long-term basis. The longer-term interests of shareholders will not be well served if the interests of other stakeholders are not addressed.

I would provide that the number one responsibility of a Board of Directors is to be the guardian of corporate values: to make sure the CEO and the other leaders are people of integrity and they "walk the talk."

CORPORATE KNIGHTS

Your city is about to get a whole lot bigger

Q&A with Jeff Rubin, the former Chief Economist with CIBC World Markets and author of *Why Your World Is About To Get A Whole Lot Smaller.*

by MELISSA SHIN

How can cities prepare for a peak oil future?
The trend from the last four decades has been suburban sprawl. Increasing amounts of car ownership and huge extension of freeways moving into the hinterland has seen people moving from the cities to the suburbs. This is an unsustainable practice. Firstly, the cost of commuting is going to increase. Secondly, we're going to find that much of the prime agricultural land that has been paved over to accommodate urban sprawl, like in Southern Ontario, will be needed for [agriculture].

In a world of triple-digit oil prices, we're not going to get chicken wings from China. Sure, the wages are going to be cheaper there. But what we save we'll more than squander on [the fuel it takes to get] food here. So there's going to be a move back to local or regional agriculture dictated by higher prices. You're going to see a movement of people from far-flung suburbs back into the city.

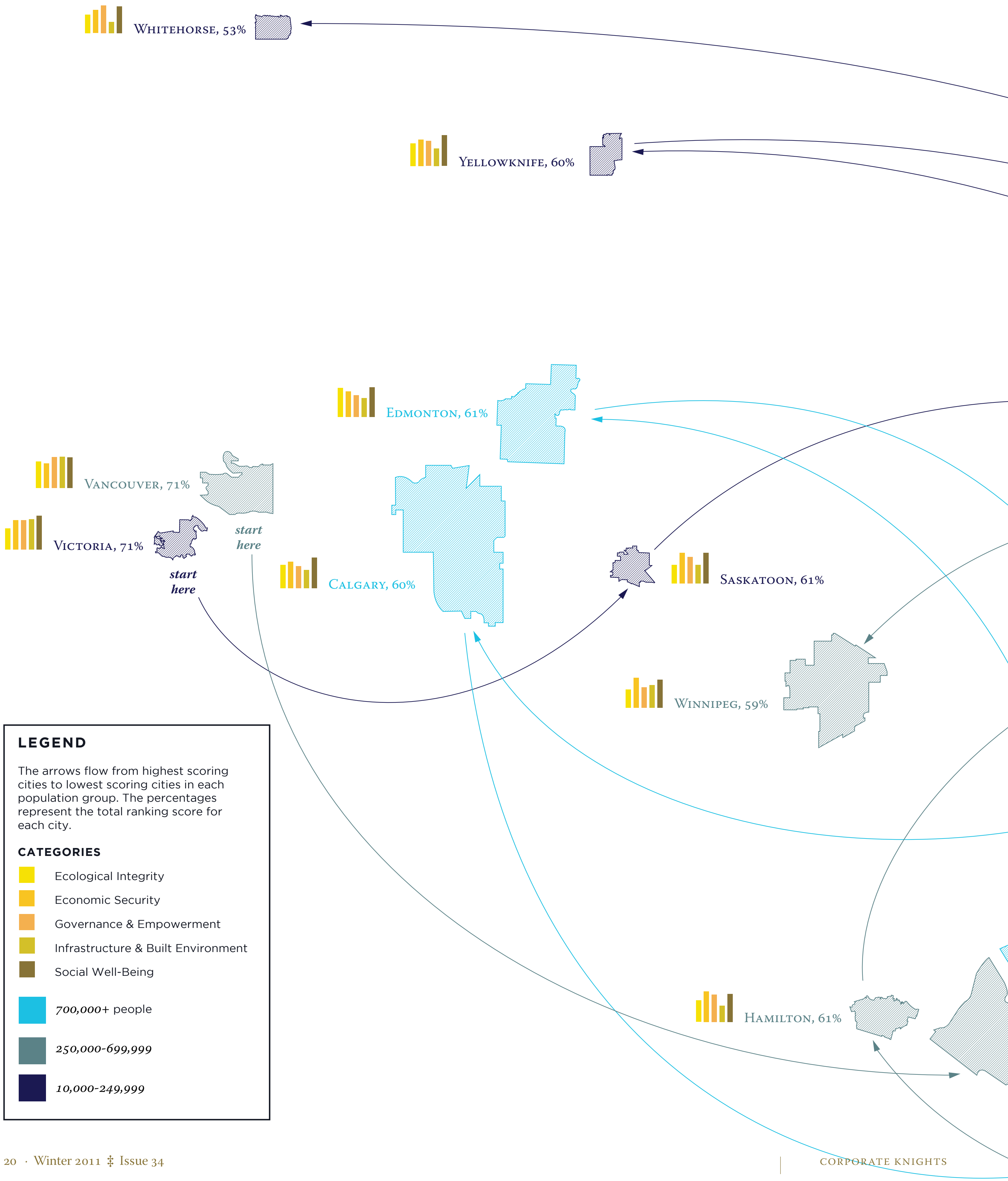
The biggest issue will be public transit. I forecast out of a vehicle stock of roughly 250 million vehicles in the U.S., some 20 per cent would take the exit lane if motorists had to pay the same fuel prices as Western Europeans have for the last 10 years. But if [those] drivers were to get off the road right now and try to get on a bus or a subway, they wouldn't be able to. No transit system in North America has 20 per cent spare capacity.

What about peak water?
The problem is water and growing populations [aren't in the same places]. We're going to find areas like the U.S. Southwest becoming a lot more unsustainable, and cities like Boston might get another at-bat in terms of economic revitalization. The cities along the Great Lakes look significantly advantaged. [Freshwater access] will become even more important as global climate change leads to greater water scarcities in areas that have recently seen huge increases in population and economy.

How will peak oil affect international business?
It's going to change the very nature of the way business is organized. In recent decades companies have become extremely specialized. We're going to find that most businesses—except, ironically, the oil business and other resource businesses—are going to become a lot more local and regional. Markets far away on the other side of the world are going to soon become inaccessible because of transport costs. Your familiarity with your local market will probably become one of your most important sources of comparative advantage.

Just-in-time inventories will not be possible in a global supply chain. Even the idea of a global supply chain may become untenable. You're already seeing companies like Procter and Gamble reorganizing their supply chains as transport costs become a lot more important.

What do you favour as an alternative to oil?
Unfortunately, there is no substitute for oil as a transit fuel, mainly because natural gas packs only one quarter of the energy density of oil. We don't have enough time [to develop a substitute] and our rendez-vous with triple-digit oil prices [per barrel] is not in 10 or 15 years, but in 10 or 15 weeks. The solution lies on the demand side. We have to change our economy so that it's not so dependent on oil or transit costs. Instead of operating as a global economy, which is an energy and oil-intensive way of doing business, we have to go back to local or regional economies. It won't prevent oil from being in triple-digit range, [but] it'll certainly mitigate the impact of those oil prices on our economic performance."



LEGEND

The arrows flow from highest scoring cities to lowest scoring cities in each population group. The percentages represent the total ranking score for each city.

CATEGORIES

- Ecological Integrity
- Economic Security
- Governance & Empowerment
- Infrastructure & Built Environment
- Social Well-Being

- *700,000+* people
- *250,000-699,999*
- *10,000-249,999*

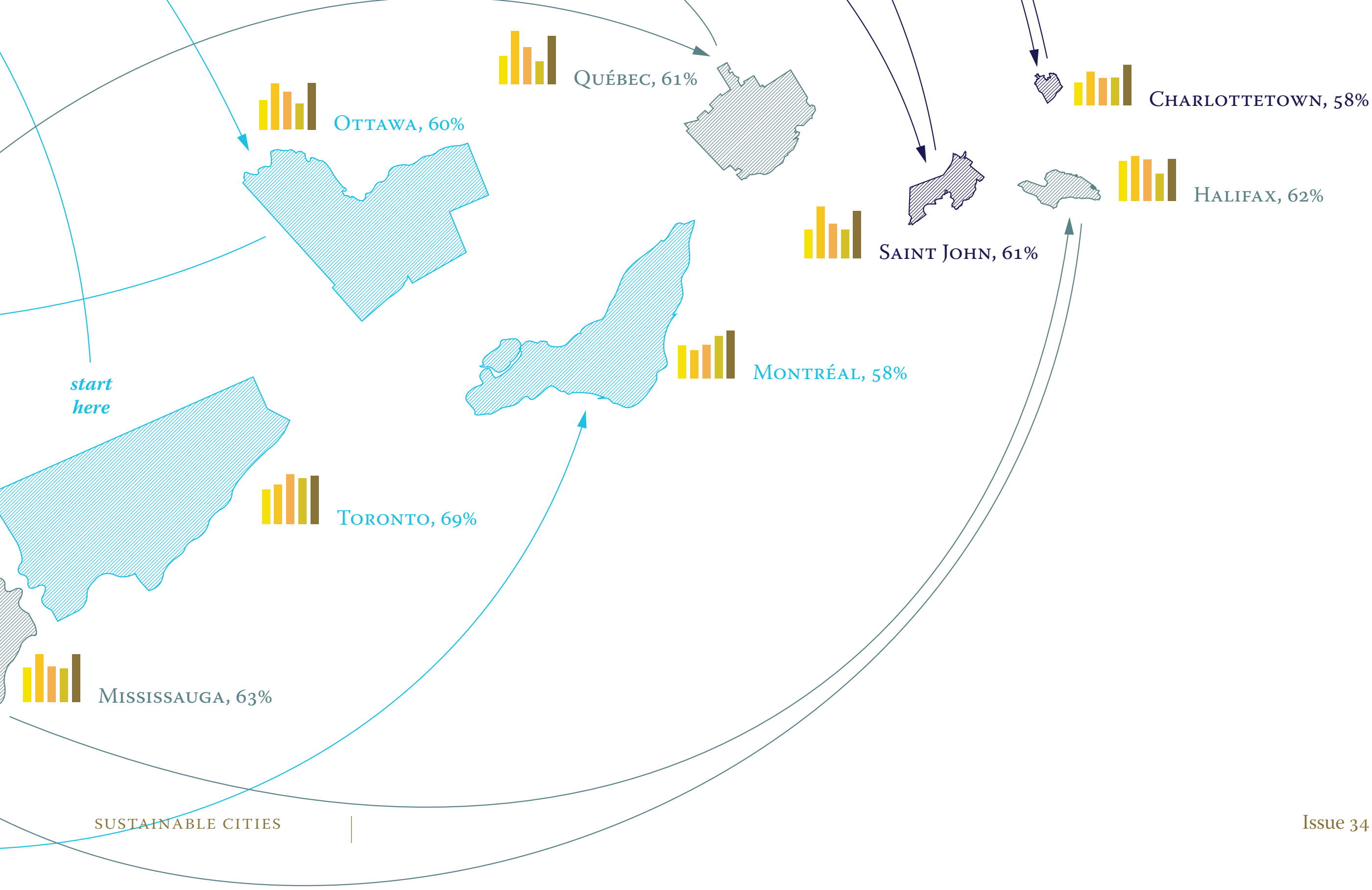
5th annual

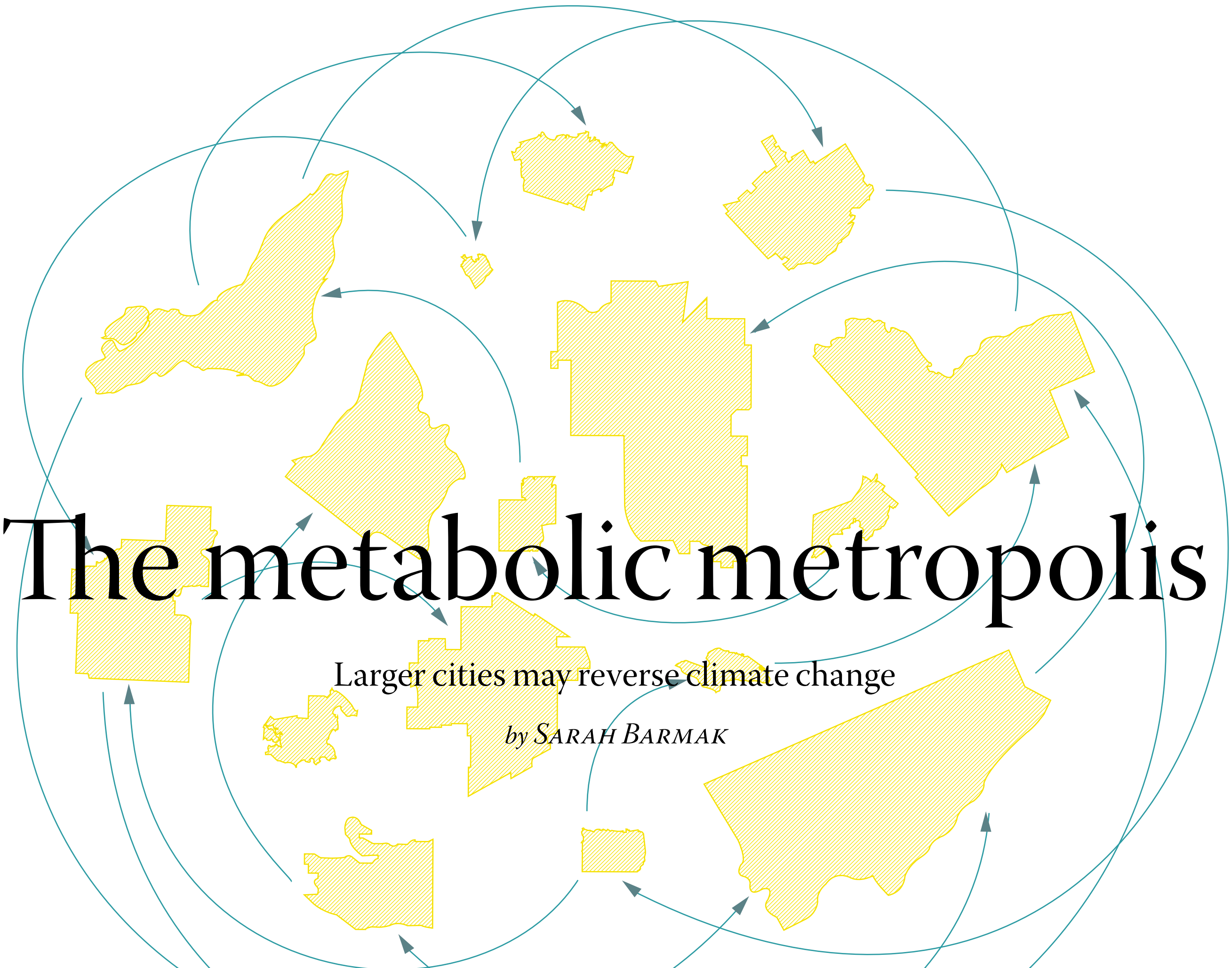
SUSTAINABLE CITIES

ranking

research by Erin Marchington

Inside:





The metabolic metropolis

Larger cities may reverse climate change

by Sarah Barmak

If the concept of a sustainable city sounds like a paradox, that's because it is, according to physicist Geoffrey West.

Ironically, because of their urban "metabolism," cities require only 85 per cent of the resources necessary to double in size, and they're more energy efficient than rural communities.

A UN-HABITAT report *State of the World's Cities 2010/2011* found that cities' density and economies of scale provide more benefits to the environment than rural living—and could even reverse the impact of climate change by reducing per capita emissions.

This seems counterintuitive to the agrarian revolutionary who believes a return to rural communities is a solution to climate change. Urban living may increase our problematic reliance on destructive factory farming, but increased worldwide migration to cities is helping curb population growth because there is no need for large families for labour.

"When villagers migrate to the city, their family size drops, on average, by at least one child per family, often below the steady population rate of 2.1 children," writes Doug Saunders in his recent book, *Arrival City*. "Without massive rural-to-urban migration, the world's population would be growing at a far faster pace."

As more people move to cities to find work, even though their family size shrinks, consumption rears its head. More people means a clamour for more food, energy, and products. According to West, the only way to keep the unsustainable urban machine going is the innovation produced by cities that constantly finds new resources to exploit.

The upshot is if we want to live in a sustainable world, we'll need bigger cities, and more of them. As a physicist who applied his training to the study of urban environments, West believes we need more megalopolises.

But as we found in the fifth annual *Corporate Knights* Sustainable Cities ranking, not all cities are created equal.

We studied 28 indicators of sustainability in five categories—ecological integrity, economic security, infrastructure and built environment, governance and empowerment, and social well-being. Seventeen Canadian cities were surveyed, giving us a picture of the country's urban sustainability.

Toronto, Vancouver, and Victoria won top honours in our Big, Medium, and Small city categories respectively. But many other cities boasted environmental programs that made them stand out, such as Edmonton and Whistler. While Whistler is not included in our ranking, the city deserves honourable mention for promising initiatives (see pg. 26).

Evaluating the complex 21st-century city is never easy. This is something University of Toronto civil engineering professor Christopher Kennedy knows all too well. Kennedy led a groundbreaking ranking of

INFRASTRUCTURE & BUILT ENVIRONMENT

Laure Waridel

After the Rio Earth Summit in 1992, Waridel helped found Equiterre. She champions sustainability in terms of infrastructure and the built environment in an urban context. Equiterre has projects focused on food, gardening, housing, fair-trade consumption, and transportation, including a community-supported agriculture network. She is currently completing a PhD in Sociology of Development and is a proponent of strength in community action.

"We can see on the ground that sustainable development initiatives are multiplying at all levels in small communities and large corporations. My hypothesis is that a new economy is being constructed from below."

the greenhouse gas emissions (GHG) of ten global cities in 2009 called *Greenhouse Gas Emissions from Global Cities*. To help account for a city's use of energy, Kennedy employs the idea of its urban metabolism, a framework that sees the modern metropolis as a kind of organism or ecosystem with flows of water, nutrients, and waste.

Gathering data from world municipalities, which are only beginning to request figures from energy companies, turned out to be a big challenge, he says. There are so many factors involved that it would be hard for anyone to simply say, "Hey, my city is better."

For example, Toronto was the only Canadian city included in *Greenhouse Gas Emissions from Global Cities*, and it performed well against its North American counterparts, but only average overall because its cold climate drives up the use of its major source of emissions—natural gas.

Still, finding ways to compare cities' sustainability is crucial, says Kennedy.

"When you look at a city's metabolism, there are details that become apparent that you miss on a national level," he says. "Many of the strategies for reducing environmental pollution or reducing greenhouse gas emissions more broadly come down to actions that have to be taken at some city scale, whether that's at the metropolitan, municipal, or corporate level."

Local programs, in other words, are the only way to have a national and global impact on carbon emissions. And our

ECOLOGICAL INTEGRITY
Sheila Watt-Cloutier

Watt-Cloutier epitomizes the category of ecological integrity. As a former chair of the Inuit Circumpolar Council and a person who has dedicated her life to speaking on behalf of Inuit people and the impacts of climate change, her work focuses on northern populations and her message is universal. She reminds us of the profound interconnection of people and the environment, noting that urban populations are often far removed from the land that supports them.

"For our cities to reflect true ecological integrity, they must not only look inward to their effects on those that reside there,

but also outward to how their decisions impact the entire world."

survey shows that Canadian cities are constantly seeking out new initiatives.

Vancouver stands out for its competitive commitment to sustainability, with its Greenest City Action Team initiative aiming to transform the city into the world's greenest city by 2020. Victoria topped the Small City category, and matched Vancouver for highest numbers by developing its Victoria Sustainability Framework, making sustainability a guiding principle of all city business. For more on the winning cities, see page 29.

But we're not just praising our top cities. Saint John deserves applause for its Green Thermal Utility plan, a multi-building project that would make use of renewable energy sources, such as waste energy from Irving Pulp and Paper. Looking to the future, with two phases to be completed in 2014 and 2017 respectively, the project aims to reduce emissions by over 16,000 tons of carbon dioxide.

Edmonton stands out in the biodiversity field. They joined the international Cities Biodiversity Index in 2010 and city staff is proactively monitoring hazard trees and invasive species. Montréal and Québec score points for retrofitting old buildings to make them accessible. They also stand out for developing "ecodistricts," which aim to sponsor sustainable development within neighbourhoods. Considering Montréal's 19 boroughs with separate councils and mayors, this is important.

Ideally all Canadian cities would have ecodistricts, and with the support of Partners for Climate Protection they just might. The Partners are a network that unites 211 municipalities (and counting), works on local sustainability initiatives and connects cities with funding from the Federation of Canadian Municipalities' Green Municipal Fund.

Many city governments have positive sustainability initiatives, but municipal elections can complicate matters, to say the least.

Toronto's new Mayor Rob Ford has proposed a subway scheme that Toronto Environmental Alliance (TEA) suggests would cost three times as much and serve half as many riders as former mayor David Miller's Transit City. TEA's findings stem from

GOVERNANCE AND EMPOWERMENT

Gurcharan S. Bhatia

Our champion for governance and empowerment is a former member of the Canadian Human Rights Commission and acted as a Judge in the Court of Canadian Citizenship. Bhatia spent the best part of his childhood in an Indian refugee camp and arrived in Canada in 1964, where he was told to "look like a Canadian." Since then, he has focused on establishing a civil society in Canada that guarantees peace, freedom, equality, and prosperity for all. Bhatia is pictured here performing a new Canadian citizenship ceremony, swearing in over 400 new multicultural Canadians.

"Canadians need a vision for this century. We know what divides us but we have to think what unites us.

What are the common values in our vast diversity?"

SMALL CITY, BIG PLANS

While Whistler could not be included in the official ranking due to population size, their initiatives deserve mentioning. In 2009 with the Natural Step, they created Whistler 2020, outlining their vision and strategy for achieving a sustainable future. Whistler 2020 is based on the back-casting concept, which operates on the premise of working towards a desired outcome, and includes monitoring a series of core and strategy indicators. Whistler has some work to do—the city had the highest rate of water consumption among the cities analyzed and scored the lowest in city council gender and visible minority representation. However, Whistler does lead in some areas—it is one of the few municipalities to have a biodiversity-monitoring project and has created an ambitious Integrated Energy Plan. It will be interesting to track Whistler's progress towards 2020.

the Pembina Institute that states light rail would reduce carbon dioxide emissions by 200,000 tonnes by 2031, compared with only 75,000 for subways. *The Globe and Mail* questioned whether the studies exaggerated Transit City's benefits, but acknowledged the subway scheme was a step backwards.

Meanwhile, in a giant leap forward, Calgary and Hamilton have elected more progressive mayors. Traditionally conservative Calgary elected Naheed Nenshi, a Harvard grad whose platform was based on limiting urban sprawl and environmental protection. Likewise, Hamilton's new mayor, Bob Bratina, has maintained the reputation he gained as a city councillor for supporting urban core development by increasing downtown density. These developments leave many people asking if today's underdogs could leave Toronto behind next year?

With so much at stake, should we be waiting for government to lead the way on sustainability? Our cities are taking initiatives to explore renewable energy and sustainability frameworks that are far beyond Canada's anemic national commitments. Yet the uncertainty over Transit City is a good example of how even well-intentioned, long-term municipal projects are at the mercy of regime changes.

Indeed, Vancouver writer and consultant Sanjay Khanna, *Corporate Knights'* choice representative for social well-being, believes that resilience in the face of environmental collapse begins not in council, but deep within the self.

Our cities will need all kinds of innovation—especially the unconventional sort—if they are to come up with solutions that will allow them to grow sustainably in the long term. Cities are our most environmentally-friendly places to dwell, as well as our biggest cause of rampant consumption and waste. But it doesn't have to be that way. With dedication and implementation, Canada's cities can help resolve the urban paradox and make our urban metabolisms healthy.

Sustainable Cities continues>>>

SOCIAL WELL-BEING

Sanjay Khanna

Writer, journalist, co-founder of Resilient People, a 2009 TED Fellow nominee, Khanna is a man of the people. He co-founded the world's first conference exploring how climate change and ecological degradation threatens people's mental health, and how resilience can be encouraged as the pressures on humanity multiply. *Corporate Knights* caught Khanna at the Vancouver International Airport.

“Social well-being and social capital are inextricably linked.

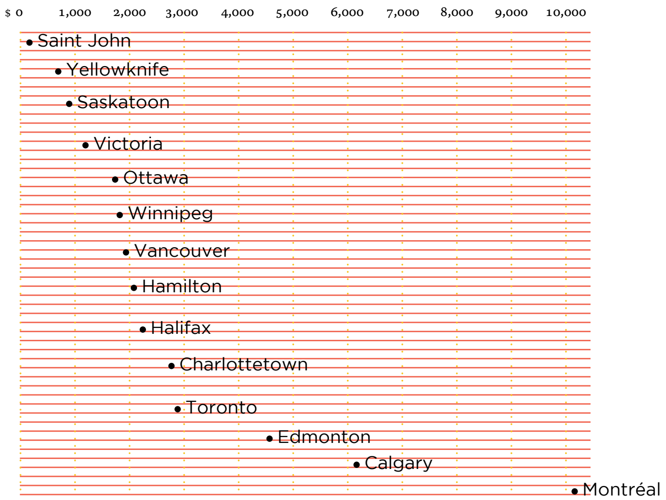
With social well-being, it becomes possible to build the reserves of social capital that cities will need to ready themselves for the challenges and opportunities that lie ahead. It may be the most reliable indicator of lasting civic vitality, community goodwill, cultural prowess, corporate innovation, and economic success.”

DENSITY BY CITY

Density (people/km²) is an indicator for the Infrastructure and Built Environment category. Data is from the most recent available Statistics Canada census (2006)

HOUSEHOLD DEBT BY CITY

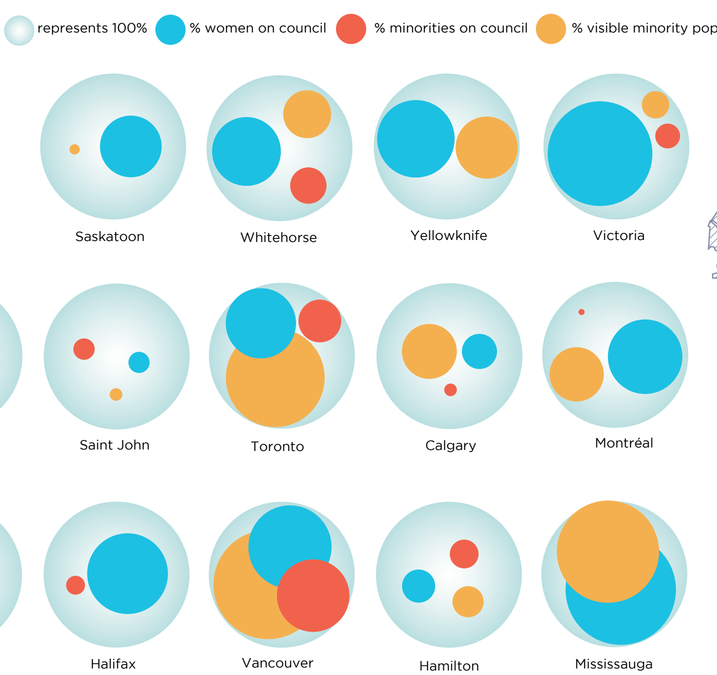
Household Debt by City is an indicator for the Economic Security category. Data is from Frontier Center for Public Policy (FCCP) Local Government Performance Index (LGPI) report (2009)



"You're going to lose your language and culture faster in poverty than you will in economic development."

ECONOMIC SECURITY
Clarence Louie
Corporate Knights found our economic security representative standing in the fermentation room of the Nk'Mip winery in Osoyoos, BC. Chief Louie is president and CEO of the Osoyoos Indian Band Development Corporation. His initiatives in economic security are promoting a new path of development for First Nations communities that he hopes will be sustainable and have positive impacts on conserving culture and tradition.

GENDER AND DIVERSITY
City Council gender and diversity is an indicator of the Governance and Empowerment category. Data is from the most recent municipal election (2008-2010).

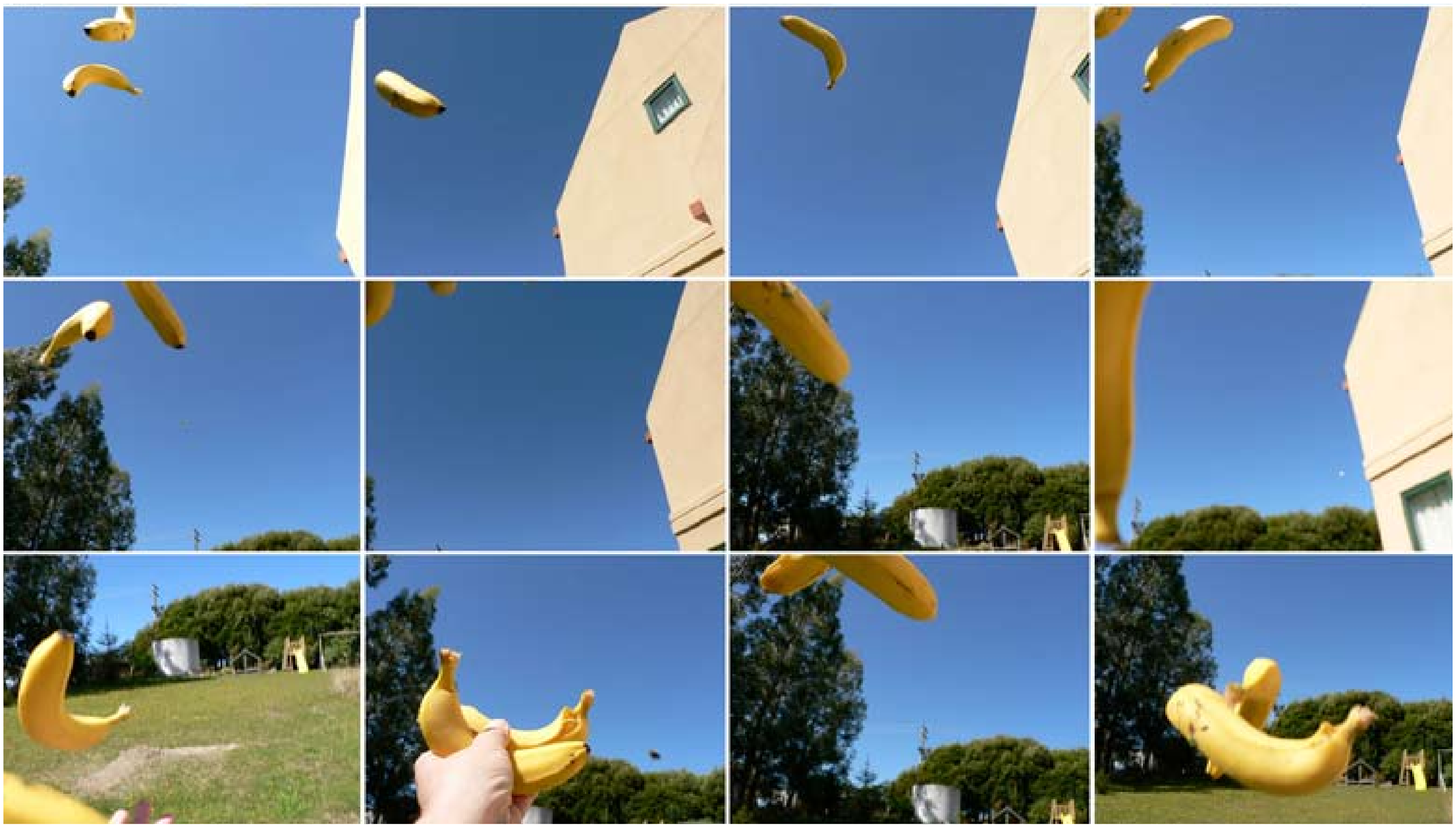


BEST LARGE CITY: TORONTO
In size and sustainability practices, Canada's biggest city is a heavy-weight champ. Toronto scored highest in governance and empowerment with the best voter turnout for municipal elections in years—53.2 per cent. The city has ambitious greenhouse gas (GHG) emission reduction targets hoping for a six per cent reduction by 2012, moving towards an 80 per cent reduction by 2050. Livegreen Toronto's program offers a number of energy efficiency grants and programs for homeowners to retrofit their homes or decrease their annual energy bills. And the city's green roof bylaw— among the first in North America—requires new commercial, institutional, and residential developments with a minimum floor area of 2,000 m^2 to have a green roof. The question: will the new city council maintain the eco-enthusiasm of the last one?

BEST MEDIUM CITY: VANCOUVER
Vancouver is well on its way to becoming the greenest city in the world, ranking highest in the infrastructure and built environment. The city's Neighbourhood Energy Utility provides 70 per cent of the area's yearly energy needs by turning sewage into heat. In early 2010, the city launched a residential solar hot water pilot program offering grants to cover half the instillation cost for a system. Building codes now require all new one and two-unit dwellings to be "solar ready" for future installment. Vancouver is one of the few cities in Canada that is currently on track to achieve its 2012 GHG emission reduction targets. With fresh sea air, mountain vistas, and the best health score, living in Vancouver has never been more appealing.

BEST SMALL CITY: VICTORIA
Victoria arrived victorious in its first year in the ranking. The small city does well across most categories proving integration works best—overall Victoria tied Vancouver. It's the only city in our ranking that achieved a perfect score for both gender and visible minority representation on city council. Victoria also does well in economic security, with low average long-term household debt. The award-winning Dockside Green project is attempting GHG neutrality by connecting a biomass heating system to a hotel site. With an edible garden at City Hall, Victoria is a small city with big plans for sustainability.

Photo: Brenda Anderson via Flickr



The city's gone bananas

Why your Mayor should have tropical fruit and tree-forts on the brain —*by* Jon-Erik Lappano

While bananas and tree-forts sound like primate priorities, we humans take these simple pleasures for granted. There is a good chance that someone, somewhere in your city is enjoying a banana—over a bowl of cereal, in a peanut butter sandwich, or taking it on-the-go for quick fuel. Across the country, the sweet and starchy fruit is a frequent choice on brunch buffets and in juice bars, packed in school lunches, and dressed up at ice cream shops. However, in 20 years, bananas—currently shipped into our cities from distant climes—and tree-forts—supported by our oldest trees—may be hard to find if our cities don't start taking sustainability seriously.

Bananas belong in important conversations—in boardrooms, behind closed doors, in city halls.

In fact, your mayor should be thinking about bananas right now. Not because His or Her Worship doesn't have more important things to consider, or because they might be particularly peckish, but because bananas are a symbol for something greater. Their existence north of the 49th parallel is a testament to globalization. They are beacons of the pre-apocalyptic marketplace, emblems of cheap fossil fuel economies.

In 2030, something as common as the contents of your morning smoothie will be determined by the economic, social, and environmental health of our planet. And the way our cities respond to the complex issues of today will affect the simple joys of its citizens for tomorrow.

Bananas are a thought experiment for the future of the sustainable city.

We asked the mayors of some major cities in Canada a few out-of-the-box questions to get them thinking about their broader visions for the sustainability of their city in the future. In addition to bananas, we asked mayors to think about tree-forts and transit.

Many Canadians take some things for granted—available food, green space, and accessible transportation. In many ways, these issues are influenced by municipal level decision-making. As the climate continues to change and the global population increases, Canadian cities are due for some major adjustments. Over the next few decades, municipal investment in sustainability will carry a lot of weight when it comes to securing something as plain and simple as the fruit on your cereal.

In the year 2030 …

WILL YOU BE ABLE TO EAT BANANAS IN YOUR CITY?

"Yes. They are greatly appreciated and enjoyed, because they are a treat, much like oranges in the Christmas stocking during WWII. Prices for tropical fruits have increased significantly, but because of Whitehorse's proximity to the Pacific, we are still able to get tropical fruits like bananas for a reasonable cost more often than other communities. However, Yukon agriculture has grown considerably in 20 years time, so while we may not be growing local bananas, we are growing a wide variety of fruits and vegetables and have a number of vibrant markets providing a diversity of locally-grown products year-round."
—Mayor Bev Buckway,
Whitehorse, Yukon Territory

"Of course. Not only will they be available from around the world, but having completed our Community Energy project in 2017 (drawing geothermal heat from a long-abandoned mine and supplementing it with biomass boilers from a newly established local wood pellet industry) locally produced bananas will be available from the recently established farms and orchards underground at another local abandoned mine*. The community, by 2030, will benefit immensely from the new community garden focusing on efforts toward sustaining our 100-mile diet opportunity."
—Mayor Gordon Van Tighem,
Yellowknife, Northwest Territory

*Mayor Van Tighem notes that the idea of a subterranean garden is, at this stage, purely an interesting concept in Yellowknife, but at least one is in operation in Tokyo, Japan.

WILL THE CITY'S CHILDREN HAVE TREE-FORTS?

"I believe they will. The Halifax Regional Municipality (HRM) is so committed to the environment that we plant several thousand trees each year in our own right. As well, we require developers of subdivisions to deed green spaces over for public use and to plant at least one tree per new lot.

And it doesn't end there. We are preparing an Urban Forest Master Plan, which will be a blueprint for the conservation and promotion of a healthy urban forest on both public and private land in HRM. We pride ourselves on being among the greenest communities in Canada and, somewhere in all that greenery, I'm confident you will always find youngsters busy playing."
—Mayor Peter Kelley, Halifax, Nova Scotia

WHAT WILL BE THE BEST WAY TO GET AROUND YOUR CITY?

"In 20 years, my hope is that we have an efficient, sustainable transportation network that combines excellent transit, safe cycling and pedestrian routes, and zero-emission cars and trucks. Our 2020 goal is to exceed 50 per cent of commutes by walk/bike/transit and we're on track. We need ongoing investment in all green options: rapid transit, buses, separated bike lanes, pedestrian corridors, and electric vehicle infrastructure."
—Mayor Gregor Robertson,
Vancouver, British Columbia

"Public transit will play a vital role in Calgary 20 years from now. Better transit is the answer to much of what ails the modern city including issues of pollution, congestion, and a lack of social inclusion."
—Mayor Naheed Nenshi, Calgary, Alberta

"The year 2030 will no doubt call for significant change from current and past practices in terms of existing transportation habits such as the role of private cars. There will also be changes in design of our landscapes and transportation funding. In 20 years the fastest way to travel around our city will be a combination of existing and improved infrastructure that promotes inter-modal connections in Charlottetown and our neighboring municipalities."
—Mayor Clifford Lee,
Charlottetown, Prince Edward Island

City ranking breakdown by category

CITIES	ECOLOGICAL INTEGRITY	ECONOMIC SECURITY	GOVERNANCE & EMPOWERMENT	INFRASTRUCTURE & BUILT ENVIRONMENT	SOCIAL WELL-BEING	TOTAL
LARGE CITIES						
Toronto	5.5	6.2	7.9	7.3	7.7	6.9
Edmonton	7.1	6.2	5.3	4.7	7.2	6.1
Ottawa	4.8	7.3	6.0	4.1	7.6	6.0
Calgary	5.8	6.6	5.5	4.5	7.6	6.0
Montréal	5.2	4.4	5.3	6.8	7.5	5.8
MEDIUM CITIES						
Vancouver	6.5	6.0	7.6	7.7	7.5	7.1
Mississauga	5.5	7.6	5.7	5.3	7.6	6.3
Halifax	6.3	7.1	6.7	4.3	6.8	6.2
Hamilton	5.2	7.5	6.8	4.0	6.9	6.1
Québec	4.5	8.4	5.9	3.7	7.7	6.1
Winnipeg	4.6	7.4	5.0	5.5	6.9	5.9
SMALL CITIES						
Victoria	5.2	7.2	7.2	7.6	8.2	7.1
Saskatoon	4.7	7.4	6.6	4.5	7.4	6.1
Saint John	4.6	8.2	5.5	4.6	7.5	6.1
Yellowknife	5.7	6.4	6.1	4.3	7.6	6.0
Charlottetown	4.6	6.3	5.2	5.4	7.3	5.8
Whitehorse	4.7	5.7	6.9	2.8	6.5	5.3

Methodology

Like a living organism our Sustainable Cities methodology continues to evolve. To create a measurable and comparable set of indicators from year to year the methodology retains the same five categories as it has since The Natural Step helped create it: ecological integrity, economic security, governance and empowerment, infrastructure and built environment, and social well-being. However, the total number of indicators analyzed for all categories has been reduced from 63 to 28 avoiding overlap and creating a manageable amount of data. The new indicators added include urban biodiversity monitoring, source water strategy, renewable energy initiatives, and health. Therefore comparing this year's numbers to last year's is not appropriate. Rather, trends are the best way to assess a city's progress.

The most populous centres in each province and territory and the ten most populous cities in the country are selected for inclusion. Cities are then grouped into three groups based on population: Big Cities have over 700,000; Medium Cities have over 250,000; and Small Cities have between 10,000 and 250,000. Victoria was added due to their involvement with the Federation of Canadian Municipalities Sustainable Cities 2011 conference. Whistler was also analyzed because of their promising sustainability initiatives, but was not included in the final ranking as it did not meet the population benchmark of 10,000 permanent residents. Iqaluit and St. John's were invited to participate in the ranking, but were unable to take part.

Data collection for each indicator makes use of a variety of sources, including Statistics Canada and Environment Canada, and a detailed survey designed by *Corporate Knights* were submitted by each city. All participating cities completed the survey, and cities were not penalized if indicator data was not available. Data for each indicator is rationally and logically normalized to a 0 – 10 value (10 high, 0 low).

For a full list of indicators, sources, and to learn more about our Sustainable Cities advisor The Natural Step, please see our Expanded Methodology online at: *corporateknights.ca/cities2011*

Epilogue: Plans to adapt

Is your city prepared for climate change?

by Erin Marchington

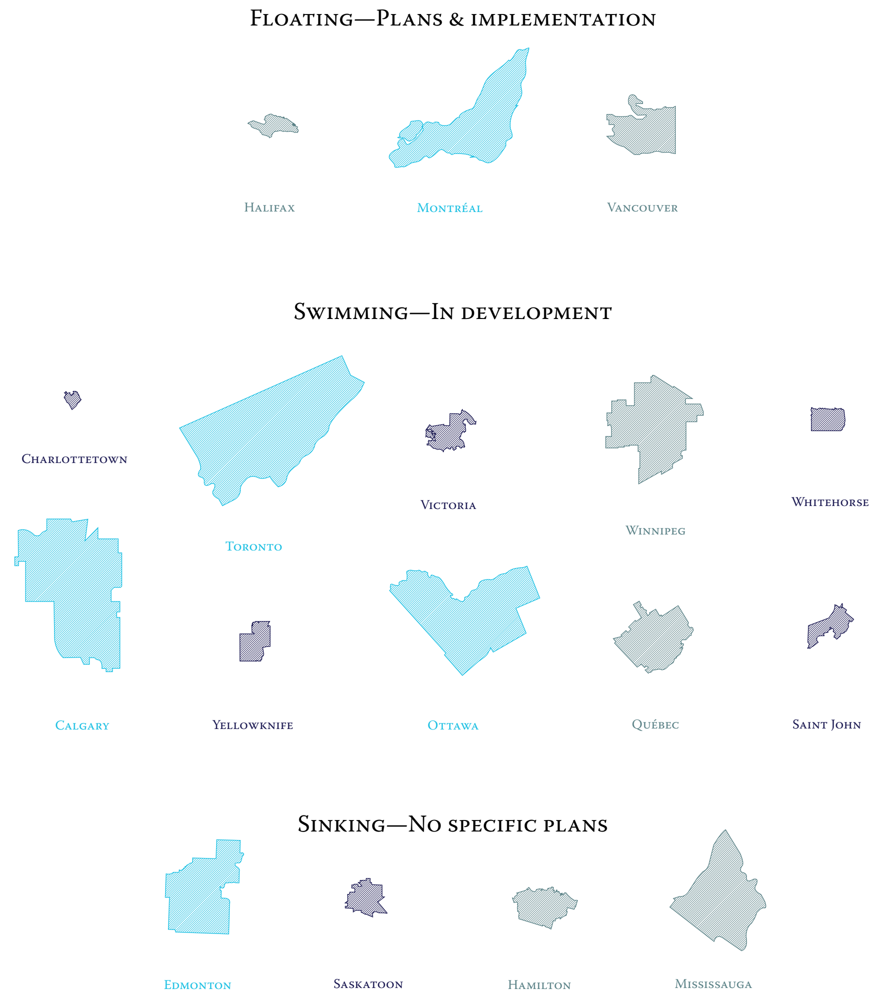
Climate change isn't a future problem—it's happening right now.

And we may not be able to stop it. A January 2011 study published in *Nature Geoscience* by the Canadian Centre for Climate Modeling and Analysis suggests there is little we can do to prevent drastic climate change, even in a highly unlikely "zero-emissions" scenario. If all emissions ceased today, the study still suggests a temperature increase varying between one and four degrees Celsius for the next thousand years—meaning long-lasting changes of epic proportions. How we respond and adapt to climate change is therefore critical going forward.

At a December 2010 of the Adaptation Advisory Committee, part of Canada's Climate Change Adaptation Project, city infrastructure was noted as the top priority concern when considering industries and disciplines that are most immediately vulnerable to the impacts of climate change.

Whether your city can cope depends on where you live.

As part of our survey this year, we evaluated Canadian cities' plans for climate change adaptation and mitigation. Canadian coastal cities analyzed in our survey have developed climate change adaptation strategies and plans, with Vancouver and Halifax leading the way in actively funding and implementing projects. For example, "Climate Responsive Design" has led to a stabilization project in Vancouver's Stanley Park. Halifax's Climate SMART (Sustainable Mitigation and Adaptation Risk Toolkit) has been in action since 2005, an ongoing partnership between the municipal, provincial and federal governments to plan and implement climate change initiatives. Victoria, Saint John, and Charlottetown also have adaptation studies and plans underway, which the projected sea-level rise will put to the test.



Mainland cities are also working to adapt. Both Toronto and Montreal are engaging with multiple stakeholders and researchers to model and assess climate change risks to inform future city planning. Yellowknife and Whitehorse, northern cities that may have already seen the impacts of warm winters, are also actively developing climate change strategies.

Still, some cities have no concrete plans on climate change, let alone adaptation. Hamilton, Mississauga, Edmonton, and Saskatoon may not be as directly affected as Iqaluit or Victoria, but the countries that grow their bananas surely will be. In our interconnected and global society, no one is untouchable.

RESPONSIBLE INVESTING GUIDE 2010

INSIDE:

illustrations by
Jack Dylan

Putting the R in Responsible Investment

by CYNTHIA MCQUEEN

In the wake of the big bank bailout in the U.S., Canadian financial institutions were quick to establish themselves as safe-houses for your money. The question of whether those institutions are environmentally and socially responsible is a house of a different colour.

Take the Deepwater Horizon Oil disaster. Suddenly the idea that "sunlight is the best disinfectant," as stated by Supreme Court Justice Louis Brandeis became every investor's personal motto when it comes to transparency, due diligence, and good governance.

What does oil have to do with responsible investing? Almost all Canadian responsible investment (RI) funds have stocks in oil sands, mining, and various other resource industries that comprise Canada's worst greenhouse gas offenders.

"Counterintuitive, isn't it? We hear from folks who are quite surprised to hear that socially responsible funds invest in oil sands because they don't necessarily understand the lack of diversity in the Canadian market," says Dermot Foley, Strategic Analyst with Vancity Investment Management.

It's a necessary evil—for mutual funds to be as risk-free, or as financially secure as possible, all financial institutions with RI mutual funds must invest in "dirty fossil fuel production."

Canada is a resource-heavy index. Trying to steer clear of oil is "obviously a preposterous investment strategy since oil runs the world economy," says Doug Morrow, Senior Associate at Toronto ICF International.

However, as a result of that necessary evil, "responsible" investment becomes relative, according to Foley.

Investors are more aware of how integral environmental, social, and governance (ESG) factors are to the financial bottom line—and the triple bottom line, people, planet, profits is gaining momentum, but who's keeping tabs?

"Investors are becoming increasingly concerned about inadequate disclosure of liabilities. The recent sub-prime mortgage crisis, as well as the Enron and WorldCom scandals are all evidence of the dangers of not having thorough disclosure policies. For oil sands investors to make wise decisions and minimize uncertainties, financial reporting of assets and liabilities must be accurate and transparent," says *Toxic Liability*, a report assessing oil sands reclamation by the Pembina Institute.

In Canada, companies are required to report on asset retirement obligations, such as mine closure plans, and land and water rehabilitation. But, the environmental information currently provided by companies is not necessarily complete, reliable or comparable, and it isn't integrated into financial reporting, according to the Environmental Reporting Guidance notice issued by the Canadian Securities Administrators.

While all the major banks say they do third party due diligence in their risk analysis when assessing the ESG factors at various extractive companies, it's difficult to compare companies and different funds when assessment styles "vary from analyst to analyst," says Don Roberts of CIBC. Some analysts will hire third parties to review the claims made by companies, and some simply won't.

"Are companies reclaiming land at the rate they said they would?" is a question Jason Milne, Governance Analyst at RBC Global Asset Management Inc., asks when considering various risk factors.

"The lack of action in Ottawa and the gridlock in Washington D.C. prevents or restricts the capacity of governments to put a price on carbon, which is what we really need for clean technology to take off."

However, as *Corporate Knights*' Responsible Investment Guide explores later, there is a $10-15 billion shortfall in the financial planning for rehabilitation of total lands used by the oil sands thus far, and this is but one extractive industry wherein RI invests.

Do risk managers account for reclamation liability? According to Canada's big five banks—RBC, BMO, CIBC, TD Bank, Scotiabank—this is risk management 101.

Part of classic investment or classic investment risk management are the 4 Ms—materials, markets, management, and money. So to the extent that reclamation liability is material, yes, it is assessed, according to Ula Ubani, Corporate Responsibility & Sustainability, BMO Financial Group.

Some financial institutions value the 4 Ms in different order, further complicating comparisons. For instance, of Canada's 5 big banks, TD Asset Management is simultaneously the only bank that manages its own RI funds and is a signatory to the UN Principles for Responsible Investment (UNPRI), which are considered the "gold standard" for financial institutions to manage environmental and social risk. The responsible investment funds created by RBC, BMO, and Scotiabank are managed by signatory companies.

As evidenced by multiple countries, signing a UN document and implementing it are two different things.

While TD has some of the best performing funds, the management of those funds, like any fund, is weighted more heavily on the financial aspect than any other.

"Governance on the financial sector is a much more important component [for TD's Global Sustainability fund], whereas in materials and mining, the environment is much more important relative to the other pieces," says Thomas George, Vice President of TD Asset Management referring to the creation of a TD Sustainability Index which is helping TD define what sustainability means across each sector.

Ironically, while RI is performing relatively well as investments recover from the financial collapse, a misconception about the performance of RI funds is what's hindering advancements in the field.

There is a fairly widespread belief that by concentrating an investment strategy on companies that meet certain non-financial criteria—like best-in-class or environmental impact—you're going to limit your financial performance, according to Doug Morrow, Senior Associate at Toronto ICF International.

"It's difficult for any mutual fund to outperform the market, but it's a double standard. I know Jantzi underperformed in terms of the TSX benchmark, but that's not unlike 90 per cent of all mutual funds," says Morrow.

The fact of the matter is the TSX is home of the largest number of cleantech companies in the world (even though many of them still have relatively small market caps). And the launch of S&P/TSX Clean Technology Index to measure the performance of companies listed on the TSX whose core business is in the development and deployment of green technologies puts Canada in the forward-thinking category.

But, "the transition to a cleaner economy can't happen overnight because of the need to invest in cleaner technologies," and that is exactly what Scotiabank is doing according to Kim Brand, Director of Environmental Affairs at Scotiabank.

One thing that many agree stands in the way of the development of a cleaner economy is government.

"The lack of action in Ottawa and the gridlock in Washington D.C. prevents or restricts the capacity of governments to put a price on carbon, which is what we really need for clean technology to take off," says Robert Walker, Vice President, ESG Services, Northwest Ethical Investments.

Do the stress test—does a carbon tax make sense? asks Don Roberts, Vice Chairman Renewable Energy and Clean Technology, CIBC.

Whether it be an assessment of "dirty fossil fuels," signing documents, or financial performance, there's a lot more than meets the eye when it comes to Canada's big banks, RI, and Cleantech. The investment pool from which major banks draw is murky at best. For instance, RBC is currently the only major bank in Canada with specific policies not to invest in cluster bombs.

So what's the moral of the long and convoluted story of "responsible" investing? It's really still in its nascence. Nothing is fully established, regulated or standardized. When you're thinking of investing your hard-earned dollars, do your research or you may end up funding something that could blow up in your face.

Responsible Investing continues>>>

Balanced Funds

Balanced Funds	1 YR	3 YR	5 YR	10 YR	ASSETS	TOR	CKSS	CKPS	SCORE	SHIELDS
IA Clarington Monthly Income SRI Ser A	13.77				41.20	84.68%	89	83	79	●●●●
Meritas Monthly Dividend and Income Fund	9.88	0.10			25.49	9.85%	85	45	68	●●●●
SocieTerra Growth Plus Portfolio	7.19				39.57	1.42%	72	45	61	●●●●
Ethical Select Conservative Portfolio[1]	5.51	1.78	3.00		94.35	44.56%	86	31	58	●●●
IA Clarington Inhance Bal SRI Port A	5.20				10.35	0.49%	89	15	57	●●●
Acuity Social Values Balanced Fund Class A	9.56	-0.62	3.09	4.42	63.70	89%	85	35	55	●●●
SocieTerra Growth Portfolio[2]	6.49	-0.23	2.22	2.02	95.40	39.40%	72	37	55	●●●
SocieTerra Secure Market Portfolio	4.64				41.40	2.22%	72	28	55	●●●
Meritas Balanced Portfolio Fund	3.65	-0.95	1.24		18.82	1.32%	85	9	52	●●●
Ethical Balanced Fund	6.27	-0.56	2.71	2.74	359.68	52.55%	86	19	52	●●●
IA Clarington Inhance Cnsrv SRI Port A	4.52				7.00	99.94%	89	26	52	●●●
IA Clarington Inhance Growth SRI Port A	5.38				20.71	0.18%	89	6	52	●●●
SocieTerra Balanced Portfolio	5.18				106.53	0.70%	72	14	48	●●●
PH&N Community Values Balanced Fund Ser D	6.78	0.86	2.82		10.55	20.22%	52	34	47	●●●
RBC Jantzi Balanced Fund Series A	5.73	-3.01			30.80	88.46%	52	22	35	●●

[1] formerly Ethical Advantage 2010 Fund
[2] formerly Desjardins Ethical Canadian Balanced Fund

Other Funds

Fixed Income	1 YR	3 YR	5 YR	10 YR	ASSETS	TOR	CKSS	CKPS	SCORE	SHIELDS
PH&N Community Values Bond Fund Series D	4.91	6.34	5.03		19.96	109.91%	52	70	55	●●●
NEI Canadian Bond[1]	3.46	4.70	3.79	4.79	279.62	47.42%	86	17	52	●●●
Meritas Canadian Bond Fund	3.25	4.33	3.25		39.60	82.80%	85	11	45	●●●
Money Market										
Meritas Money Market Fund	0.23	1.98	2.18		4.63	0.00%	84	24	49	●●●●
Pure play environmental funds (without an explicit ESG mandate)										
Creststreet Alternative Energy-B					3.49	397.69%				
Criterion Water Infrastructure D	11.48				4.58	24.12%		39		
Criterion Global Clean Engy Cl H (Hedged)	22.82				5.21	33.82%		71		
Criterion Global Clean Engy Cl U (Unhedged)	19.33				2.52	33.82%		65		
HSBC Global Climate Change Fund Investor Srs	9.28				0.15	23.11%		17		
Scotia Global Climate Change Fund	12.48				8.55	42.46%		28		

[1] formerly Ethical Income Fund

N YR Compound return for n years.
CKSS Corporate Knights Social Score (updated every year, or more often if a fund or company undergoes a substantial change).
TOR Turnover rate
CKPS Corporate Knights Performance Score.
● Quintile ranking.

Methodology Brief
Shield Score (out of 5) is based on the following weighted scores:
- Portfolio Turnover Rate: 10%
- Engagement: 15%
- Integration: 17%
- Systemic: 8%
- Performance: 40%

We used a blend of 1-year and 3-year relative performance (percentile ranking within the fund category). For funds with less than 3 years of history, we used the 1-year performance. For a full breakdown of how funds scored in each of the above categories, go to: *corporateknights.ca/ri.*

Data Powered by: Morningstar

Leading lights in the bullseye

High-rated companies in the hot seat —*by Cynthia McQueen*

BARRICK GOLD CORPORATION

Barrick has been levied with some serious environmental and human rights allegations. Over the last two years, seven "trespassers"—local Tanzanians—have been reportedly shot by Tanzanian police according to *Bloomberg Businessweek* while rummaging through waste rock. In Papua New Guinea, Barrick took over the Porgera Joint Venture (PJV) mine in 2006. Since then, they have been accused by indigenous and environmental groups of not doing enough to abate the environmental degradation of the 800-kilometre-long river system where waste rock and tailings have been dumped since 1992. This environmental sore spot caused the $512 billion Norwegian Government Pension Fund to divest from the company in November of 2008 for "unacceptable risk of the Fund contributing to serious environmental damage."

pro:

"The decision by the Norwegian pension fund was not unexpected. Overall, we respectfully disagree with the reliability of the findings that informed the fund's decision. PJV follows a comprehensive government-approved environmental management and monitoring program. A comprehensive two-year study reviewed the discharge of tailings and took into account a full range of highly complex technical, environmental, social, and regulatory factors—social factors such as the law and order challenges and the presence of illegal miners. We do not tolerate any form of violence or human rights abuse—against women or men—and we expect any employee who sees or hears about such acts to immediately report what they know to the appropriate authorities."
—Andy Lloyd, *Communications Manager*, Barrick Gold Corporation (via email)

con:

"The reason PJV is of such interest is there's such a range of issues–the tailings in the river is also a social issue because of all of the communities that are downstream. That mine has no closure plan and it's hard to imagine rehabilitation of that river system . . . A small group of indigenous Ipili from the highlands of Papua New Guinea wrote to Barrick before they acquired the mine to tell them that people had been raped and killed for years, so Barrick knew what it was buying. In 2009, there was a big military action that happened at the mine site called "Operation Ipili." There were allegations of rapes and killings—I say alleged but they have been reported—that have happened under Barrick's watch."
—Catherine Coumans, *Research Coordinator and Asia Pacific Program Coordinator,* MiningWatch Canada

ENBRIDGE, INC.

Enbridge is in the review process for one of the most controversial and largest industrial projects in Canadian history—the Northern Gateway pipeline, which aims to carry 525,000 barrels of crude daily from Alberta's oilsands to supertankers at northern B.C.'s Port of Kitimat. It would then be transported through some of Canada's most precious ecological zones on its way to Asia—a supertanker route which Liberal Leader Michael Ignatieff has said he would not allow. The 1,172-kilometre two-way pipeline will pass crude oil and condensate—a substance used to make synthetic oil—through dozens of communities, over 773 creeks, rivers, and streams and two provinces.

pro:

"The project will increase Canada's GDP by $270 B. During the construction phase 3,000 local or direct on-site jobs will be created. During the operational phase, there will be 100 new jobs to run the pipeline and 113 associated with marine services. This pipeline will attract supertankers across the Port of Kitimat. They will be escorted and piloted by super tugs. There will be monitoring along the shorelines of the fjord presumably by First Nations people."
—Paul Hunt, *Director Sustainability*, Enbridge Inc.

con:

"I can't think of a coalition or alliances of groups that are as extensive as the ones opposing the Enbridge pipeline. And that includes something like 80 First Nation bands, a number of unions including forest unions and the union of B.C. municipalities. Yet Enbridge is pushing forward without any apparent concern about the opposition. I think the pipeline is gradually being reframed in people's minds for what it is: [hundreds of] oil tankers, one of which at some point is going to have an accident that will spill oil off the B.C. coast. It's an example of corporate irresponsibility."
—Murray Dobbin, *research associate,* Canadian Centre for Policy Alternatives

Equity Funds

	1 YR	3 YR	5 YR	10 YR	ASSETS	TOR	CKSS	CKPS	SCORE	SHIELDS
Ethical American Multi-Strategy Fund	8.76	-3.01	-1.40	-6.97	40.20	74.56%	86	75	75	🛡🛡🛡🛡
Ethical Global Dividend Fund	5.74	-4.49			8.24	56.97%	86	61	71	🛡🛡🛡🛡
Ethical International Equity Fund	4.20	-10.12	-1.80		46.34	70.19%	86	61	69	🛡🛡🛡🛡
Ethical Canadian Dividend Fund	16.19	-1.19	2.71		267.50	82.91%	86	54	65	🛡🛡🛡🛡
Ethical Global Equity Fund	3.42	-5.35	-0.13	-3.18	33.19	62.10%	86	46	63	🛡🛡🛡🛡
Ethical Growth Fund	9.75	-3.50	2.54	2.62	316.39	40.40%	86	38	62	🛡🛡🛡🛡
Acuity Social Values Canadian Equity Fund	13.38	-4.71	1.38	7.14	38.17	92.00%	85	48	61	🛡🛡🛡🛡
Acuity Social Values Global Equity Fund	4.24	-8.12	-2.07	-2.79	13.21	47.00%	85	37	60	🛡🛡🛡🛡
RBC Jantzi Canadian Equity Fund Series A	14.11	0.76			22.55	40.02%	52	65	59	🛡🛡🛡
Ethical Special Equity Fund	14.49	-0.83	3.73	14.29	271.51	23.43%	86	27	59	🛡🛡🛡
Acuity Alpha Social Values Portfolio Class A	8.96	-5.59			14.51	6.00%	85	23	58	🛡🛡🛡
IS Clarington Global Equity SRI Cl Ser A	-1.07				7.64	0.60%	89	12	55	🛡🛡🛡
Meritas U.S. Equity Fund	2.27	-8.60	-6.39		10.04	23.14%	85	17	54	🛡🛡🛡
Scotia Global Climate Change Fund	1.71					46.29%	81	26	54	🛡🛡🛡
Meritas Jantzi Social Index Fund	9.04	-2.46	3.43		76.63	15.98%	85	9	51	🛡🛡🛡
Meritas International Equity Fund	0.44	-10.26	-1.63		25.76	47.13%	85	13	49	🛡🛡🛡
PH&N Community Values Global Equity Fund Ser D	3.54	-5.97	-2.71		5.75	59.28%	52	44	47	🛡🛡🛡
GWL Ethics (G) 75/75	15.32				0.15		6	87	47	🛡🛡🛡
TD Global Sustainability Fund - Investor Series	-10.67	-12.65			7.00	40.52%	88	2	46	🛡🛡🛡
GWL Ethics (G) 75/100	15.18				0.14		6	86	46	🛡🛡🛡
GWL Ethics (G) 100/100	14.74				0.02		6	84	45	🛡🛡🛡
IA Clarington Canadian Eq SRI Cl Ser A	9.73				5.94	98.32%	89	10	45	🛡🛡🛡
Mackenzie Universal Sustainable Opportunities Class A	2.11	-7.92	-1.28		18.02	21.26%	49	31	44	🛡🛡🛡
Acuity Clean Environment Equity Fund	3.05	-13.19	-1.90	0.25	72.91	69%	85	4	43	🛡🛡🛡
Desjardins Environment Fund	8.40	0.36	6.81	7.14	190.11	96.71%	61	34	43	🛡🛡🛡
PH&N Community Values Canadian Equity Fund Ser D	11.64	-1.38	3.66		22.08	56.05%	52	29	41	🛡🛡🛡
RBC Jantzi Global Equity Fund	4.92	-8.89			8.65	192.84%	52	35	39	🛡🛡
BMO Sustainable Opportunities Class	0.63				3.23	52.80%	58	18	39	🛡🛡
BMO GDN Sustainable Opp Cls Ad Sr	-6.57				0.29	52.80%	58	4	32	🛡🛡
Investors Summa Global SRI Fund Series A	1.00	-6.54				16.84%	22	31	32	🛡🛡
London Life Ethics Fund (GWLIM)	15.44	-3.46	3.05				6	56	31	🛡🛡
BMO Sustainable Climate Class	-6.55				5.30	72.11%	58	5	31	🛡🛡
Investors Summa Global SRI Class Series A	0.71	-7.25				18.68%	22	27	30	🛡🛡
Great-West Life Ethics Fund (G) DSC	15.32	-3.87	3.09		11.65		6	51	29	🛡🛡
iShares CDN Jantzi Social Index Fund	10.44	-1.12			19.55	28.10%	18	26	27	🛡🛡
Great-West Life Ethics Fund (G) NL	15.07	-4.07	2.87		9.49		6	48	27	🛡🛡
Investors Summa SRI Fund Series A	8.07	-7.74	-0.09			52.91%	22	17	22	🛡🛡
Investors Summa SRI Class A	7.54	-7.32	0.16			73.56%	22	16	20	🛡
Investors Summa Global Environ Leaders Fund Ser A	-11.60	-16.54				52.69%	22	4	16	🛡
Matrix Sierra Equity Fund	2.11	-21.95	-8.58	-2.86		244.03%	32	1	15	🛡
IG/GWL Summa Segregated Fund	7.85	-7.93	-0.26	-0.26	7.93		6	23	15	🛡
Investors Summa Global Environ Leaders Class Ser A	-11.79	-16.99				69.59%	22	1	13	🛡

CK ESG Criteria, which looks at the categories Engagement Impact, ESG Integration, and Systemic ESG Support, can be found online at: *corporateknights.ca/ri* Performance data as of November 30, 2010 provided by Morningstar. All non-performance data obtained from the fund companies.

Notice to Investors
The 2010 Corporate Knights RI Fund Ranking is a resource designed to help investors make an educated judgment on which funds have done the best job of fusing the social, environmental, and financial values they bring to the table. Investors can best utilize our chart by making their own assessment based on each fund's characteristics.

Methodology Brief
Shield Score (out of 5) is based on the following weighted scores:

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ROYAL BANK OF CANADA

RBC found itself cast among the environmental derelicts when the Rainforest Action Network published *Banks Ranked and Spanked on the Tar Sands* late in 2010, which identified RBC as the oil sands' largest creditor to the tune of US$16,903 M. With pressure from the Indigenous Environmental Network and BankTrack, RBC responded by becoming the first major international bank to introduce a policy to document whether bank clients in high-impact sectors have received consent from indigenous communities.

pro:

"We do have the oil sands in the funds and it's something that's definitely on the minds of investors. It's hard to reconcile what investors read in the press with a responsible fund with holdings in the oil sands. Canada is a resource-heavy index. We hold companies in the oil sands and we will continue to hold them, but we will make sure we hold them accountable for what they're doing there."
—Jason Milne, *Manager ESG policy and research Governance Analyst*, RBC

con:

"It's not the champagne-popping moment. The truth will, I think, only emerge over time whether or not this commitment of theirs is real. So, I think what we need to do is see how this hits the ground in specific instances where the bank is proposing to finance projects that First Nations simply don't want."
—Matt Price, *Policy Director*
Environmental Defense

Care to share: Shareholder activism

by Jeremy Runnalls with files from Melissa Shin

While the biggest win in shareholder activism came with oversight on executive compensation packages for banks and corporations, the number of shareholder resolutions filed went down 49 per cent in 2010. But this drop could mean companies are taking shareholders seriously.

The Ontario Securities Commission's proposal to introduce mandatory say-on-pay requirements—meaning shareholders can vote on executives' remuneration—is encouraging.

Meritas CEO Gary Hawton says they're "looking at mandating what we have been asking for one company at a time." By the end of this proxy season, Hawton believes over 50 companies will have committed to providing an annual vote on executive compensation packages. Over the past three years, Meritas Mutual Funds has led the most significant shareholder movement on the issue of executive compensation. Meritas filed 26 resolutions proposing the board of directors for corporations adopt say-on-pay requirements, which are already mandated in the U.K. and Australia.

Every major Canadian Bank has agreed to this proposal, along with some surprising corporations, including Russel Metals Inc., Barrick Gold Corp., and Major Drilling Group International Inc.

The good news is shareholder filings are effective, the bad news may be that they've dropped.

Yet while the drop may look like a trend of continuous decline of resolutions filed in Canada—175 resolutions in 2008 to last year's 48—Laura O'Neill, director of law and policy at Shareholder Association for Research and Education, says it's only a fluctuation. "Shareholders are not becoming less concerned about environment, social, and governance matters." Given the small pool of actively engaged shareholders in Canada, "it almost takes one shareholder, who is an active filer, to take one year off to drive the number down."

Québec-based Robert Verdun of *Mouvement d'éducation et de défense des actionaires* or MEDAC filed 77 per cent of Canadian shareholder resolutions in 2009 and then took 2010 off. However, Verdun's absence is not the only reason numbers were down.

O'Neill also considers withdrawn resolutions a success, since it usually means a dialogue has opened between management and the filer to discuss the issues at hand. But she's still hoping for increased shareholder engagement by Canadian investors.

That way, one vacationing filer won't be cause for alarm.

Hedge your bets: It's RRSP season

by AL ROSEN & MARK ROSEN

January and February are dangerous times for Canadians still reeling from holiday debt. But before the taxman cometh, every Canuck is marked as fair game for the financial behemoth that gorges a wide and indiscriminate path early each year. Yes, it's RRSP time again.

The onslaught has already begun. Advisors are laying the guilt on thick, ratcheting up the fear factor in a heated competition to manage the disproportionate number of dollars Canadians dole out this time of year.

Subjected to a carpet-bombing of dubious advertisements, the average person can make some bad choices during the chaos. Investors will frequently just hand their money over to someone they see prophesying on the business news about the direction of commodity markets or the next hot sector. Yet handing your retirement savings to a TV preacher hardly seems like a bright idea. So where does it all go wrong?

Unfortunately, the average investor does not have the time to penetrate the public relations sheen put on by many investment firms. Having personally met all the top-tier money managers in the country, it's easy to see they fall into two camps—those serious about investing, and those intent on convincing others they are serious about investing.

The ones who make it a priority to thoroughly analyze the investments they purchase on behalf of mutual fund holders simply can't get enough information when it comes to avoiding potential risks. A timely example is Canada's recent switch to using International Financial Reporting Standards (IFRS). In essence, financial statements will now be written in a completely new language. Learning it should be a top priority for anyone who reads annual reports and makes investment decisions accordingly.

However, not all professional money managers are created equal. They naturally assume their investment stewards are completely up to speed on such a crucial issue. However, nothing could be further from the truth. Some fund managers do little ground-level analysis in terms of assessing a variety of risks, including accounting issues. That function is farmed out to stock analysts and others, while money managers dedicate the majority of their time to polishing their sales pitch. Telling money managers their world is about to change because of accounting is the last thing they want to hear.

As a way of coaching themselves to deal with potential questions from their clients, the bad fund managers start to rationalize why nothing has changed, or why they won't be impacted by a monumental revision to the financial lingua franca. Sometimes, bad managers are satisfied to consult someone who tells them they have nothing to worry about. Unfortunately, many consultants are as much in dark as the managers, or have conflicts of interest that make them more than happy to spread the message that there is nothing to worry about.

The head-in-the-sand mentality adopted by bad money managers is aided by the fact that investors don't realize the risks being taken with their money. The average working guy can barely handle all the RRSP marketing nonsense, never mind follow up on risks their well-paid money manager might be grossly miscalculating.

Unfortunately, investors are the ones who will get taken to the cleaners when bad money managers severely underestimate the financial risks of IFRS. Such misses rarely come back to bite the managers themselves, especially when they can just plough ahead and get more assets under management by sounding smart and looking polished on TV.

To be blunt, you're on your own here. Research the managers of the mutual funds you own. Get an idea of who they are. Are you giving your money to a pimped-out marketing machine, or to a hard-core, pencil-sharpening analyst who knows it's not okay to take undue risks with other people's money?

Profits left on the table could build green

by *Shawn McCarthy*

British Columbia Investment Management Corp. is mining gold from green buildings.

The fund manager includes B.C.'s seven public sector pension funds and takes principles for responsible investment (PRI) further than simply considering environmental, social, and governance (ESG) risk factors when reviewing potential investments. Their commercial real estate group is looking to generate greater returns by seeking out energy-efficient commercial buildings that provide lower operating costs and higher rent.

It's a strategy of investing in "energy productive" real estate that other Canadian pension managers, including the giant Canada Pension Plan Investment Board (CPPIB), have not pursued as aggressively.

Even with its $9-billion real estate portfolio, CPPIB may be leaving significant profits on the table by failing to invest in greening their buildings.

"We expect in the next three or four or five years, [green buildings] will become a bigger part of their real estate portfolio," says Eugene Ellmen, executive director of Social Investment Organization, a non-profit group that represents ethical investors.

Despite several international studies done for the UN pointing to the attractive return on investments in building efficiency, there is a common impression among institutional investors that green buildings involve greater upfront costs and potential liability issues.

"The bigger risk with green buildings is not getting involved," according to Washington consultant David Gardner. The number of green certified buildings in Canada leapt from 86 in 2005 to 1,100 in mid-2008, he notes, with a similar trend in the U.S. and around the world. In a report to a UN investors' conference last year, he noted conventional buildings might be perceived as inefficient or even obsolete. As a result, they would attract lower rents, and fewer tenants than high-efficiency buildings.

CPPIB is a signatory of the UN Principles for Responsible Investment, and has appointed an executive team to implement that policy. But much of that activity still revolves around the research and inclusion of ESG factors in due diligence work prior to investing in publicly traded companies, as opposed to direct investments in the profit-generating potential of green buildings.

Unlike other public pension funds, such as Québec's Caisse de Dépôt et Placement, CPPIB has no mandate to pursue social or environmental objectives for their own sake.

In contrast, British Columbia Investment Management Corp.'s (bcIMC) chief executive Doug Pearce has highlighted his fund's direct investments in green buildings. When assessing mortgage applications, bcIMC favours projects with environmentally-sound design principles that match clients' risk-return requirements. As of March 2010, 35 per cent of the B.C. funds' income-producing, domestic real estate portfolio was certified under LEED or BOMA BESt, with a target of getting that level above 50 per cent.

But there are a number of barriers in the way of more aggressive investment in green buildings by pension funds and other asset managers. Most leases now have split incentives—tenants rather than owners are responsible for utility bills leaving little incentive for owners to spend money to lower those bills in existing buildings.

At the same time, there is little unbiased information available that clearly defines the value of certified green buildings. Most research comes from ethical investing groups or the UN—organizations interested in the environmental impact of the investments over profitability.

Another hurdle to overcome is the short-term horizon of most investment managers. Most building owners demand payback from their energy efficiency investment within three years at most, says David Helliwell, chief executive officer of Pulse Energy, which installs energy-efficiency software systems in buildings.

Any investment needs to balance quick returns and steady returns. It's not just about maximizing short-term returns, but balancing the needs of future beneficiaries against those of current retirees. Pension funds should be thinking long-term, making environmental and social issues more relevant because the future health of markets depends on them, says former Ontario Securities Commission head Ed Waitzer.

While senior managers at CPPIB and other financial institutions recognize the need for responsible investing—including in the real estate sector—commitment is harder. "You have to redefine the mission from what is currently the case—avoid under-performing quarterly benchmarks—to what the real mission should be which is how do we provide for long-term retirement income security," Waitzer says.

Canada Pension Plan auditors project 50 years into the future. Asset managers need to follow suit.

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The quicksands of investment

Albertans may not be alone in footing the environmental bill for the oil sands—check your pension investments

by CYNTHIA MCQUEEN, *with files from* MELISSA SHIN

Albertans may get a nice kickback in the form of a cheque for provincial ownership of a large natural resource. But who is expected to foot the bill for the large footprint left by a destructive oil industry?

According to the Pembina Institute's report, *Toxic Liability*, the answer is Albertans, but they're not alone. If you've invested in any security with interests in oil sands—pensions and endowments—your investment may only be as secure as the quick-oil-sand it's built on.

Thus far the current financial security accrued by the Alberta government for reclamation of land and water is lacking a few decimal points—the shortfall could be somewhere between $10 and $15 billion.

"The cost of cleaning up all the land disturbed by oil sands mining could be as high as $3.7 billion, while tailings ponds cleanup could cost up to $10 billion. The reclamation security that has been posted against these cleanup costs was only $820 million as of 2009," says the report.

All this comes just a few short months before the federal government and Alberta's Environment Minister Rob Renner acknowledged the oil sands' need for increased oversight in order to substantiate the claim that they are developed in a sustainable manner. This could be too little too late considering the security funds' projected shortfall, and the fact that Alberta's auditor general has been warning the province about insufficient monitoring since 1998.

Proper monitoring and reporting would prove the current policies are unacceptable and inadequate. Currently, "Albertans and investors are bearing the lion's share of the risks," says Nathan Lempher, Oil Sands Policy Analyst at the Pembina Institute.

Michelle de Cordova, Manager of Sustainability Research with NEI Investments, one of Canada's leading responsible investment companies, notes asset retirement obligations (ARO) are a large part of the environmental, social, governance (ESG) metrics affecting meaningful investment decisions.

In situ oil sands are inefficient in water recovery, energy used, and for heat generation. The remediation they have to do is on the same scale as conventional oil, says de Cordova.

The biggest shortfall in remediation is the lack of experience in reclaiming tailings ponds. Technologies are still under development, and while Suncor's new tailings management technique, or TRO™ technology, aims to bridge this gap, it falls short. Suncor planned to invest $450 million to implement TRO™, according to its 2010 Sustainability Report.

Earlier in 2010, Suncor claimed it had rehabilitated its original tailings pond, appropriately named Pond 1, near the Athabasca River. However, "they haven't dealt with any of the toxicity or salinity issues of reclamation. So it's industry-reported reclamation, not government-certified reclamation," says Lempher of Pembina.

Suncor was unable to provide any information regarding toxicity or salinity issues in Pond 1, now called Wapisiw Lookout. But a media representative did say, "Under current regulations we can only apply for a reclamation certificate when the land is a fully functioning ecosystem." Wapisiw Lookout is next to a working mine. Because reclaimed lands go back to Crown ownership, making the lands accessible to the public, "It's a safety issue."

Industry says they've reclaimed 11 per cent of the total disturbed mining landscape, but that claim does not consider salinity, toxicity, or groundwater pollution. The only piece of government-certified reclaimed land, according to the Pembina Institute, is a 104-hectare piece of land from Syncrude called Gateway Hill. This represents only 0.16 per cent of the total disturbed mining landscape.

Without policies that require more stringent monitoring, investment in the oil sands seems attractive in the short-term, but the companies "are not including a large share of the actual liabilities, which they'll be required to pay at the end of the life of the mine," says Lempher.

The lifesaver in the oil sands comes in the form of stricter guidelines enforced by the Canadian Securities Administrators. The importance of remediation and reporting under more stringent International Financial Reporting Standards are all stressed.

This could have huge implications for Syncrude and the Canadian Oil Sands Trust, whose filings don't include their coke stockpiles, which are the largest in the world. Coke created by oil sands mining produces 10 per cent more greenhouse gas emissions than conventional mining.

Unless companies start revealing a clearer and more detailed picture of their environmental liabilities, or until the government requires they do so, investment in the oil sands could be a ticking time bomb.

Photo: Andre, aka CX15 via flcikr

Maple Leaf Manifesto: Canada's sustainability brand

by *Karim Bardeesy*

Sustainability and Canada: these ideas should fit together like a hand and a warm woolen mitten. In an ideal world, given Canada's vast size, natural bounty and historic presence on the international stage, sustainability should be intimately paired with Canada, as the Belgians are with chocolate or the Finns with a piping hot sauna.

Yet, the Canadian image overseas, especially in Europe, is the environmental laggard, a climate fossil where the prevailing symbol of a clubbed seal has been replaced by a ruinous oil sands operation.

The reality, of course, is much more complex.

But as long as Canada lacks an integrated national strategy to leverage our abundant natural capital, we will continue to be vulnerable to the profit-oriented trends that make us fritter this privilege, testing our ecosystems' tolerance and the bonds of national unity, further degrading our image.

With the right choices and a change in political mindset, Canada can legitimately stamp itself with an enduring brand—call it the "Maple Leaf Seal of Approval"—and in the process, enhance both the state of the planet and its own reputation over the long run.

TAR SANDS OF TIME

The core problem is a prioritization of short-term benefits at the expense of long-term opportunities. This is ironically manifested in an area where planning takes decades—the oil sands.

Oil sands are projected to take up an increasing share of Canada's carbon emissions, threatening our country's ability to meet its goal of reducing emissions by 15 per cent by 2020. In response to criticism, the federal and Alberta governments have reacted defensively, attempting to explain their environmental record rather than change it, touting the product as an "ethical" option compared with oil sourced from more suspect regions. This is a multi-partisan phenomenon. When the National Geographic ran a damning article and photoessay on the ecological impact of Alberta oil sands operations in March 2009, Liberal Party of Canada leader Michael Ignatieff was one of the first to cry foul.

In terms of policy, Canada and Alberta have gone "all in" on carbon capture, sequestration (CCS) and storage, providing over $1 billion in subsidies or commitments while letting support for other green projects, notably wind energy, lapse.

It is, in effect, another bet on the oil sands, and on coal-fired power in Western Canada.

In addition to those risky bets, lack of liability for CCS, and a carbon tax versus a cap and trade system must be considered.

CARBONATED TAXES AND REWARDS

The Conservatives are advocating for lower corporate taxes. The Liberals are opposed, saying they want to spend the surplus funds (if, indeed, stopping the tax cuts yields more revenue) on needed social programs. A showdown over the budget, and a possible election, could result.

When it comes to sustainability, these

are important, but ultimately limited, debates. If Canada wants the Maple Leaf Seal of Approval, it needs to re-orient the conversation towards rewarding positive outcomes.

On tax, the pro-sustainability approach would re-jig our corporate tax regime altogether. Those companies that lower their carbon emissions as a proportion of revenues the most over a single or multi-year period would get an extra reduction in their corporate taxes.

This could be done in every industry, which allows for special care in extractive industries, which have royalties and rebates layered over the existing corporate tax regime.

All of these proposals, incidentally, would have the effect of putting an implied tax or price on carbon—something that a large proportion of economists agree is necessary to tackle climate change. But imposing a tax right away was rejected at the polls in October 2008, after being proposed by then-Liberal leader Stéphane Dion, and pure subsidy approaches are also politically divisive.

New systems that focus on rewarding good behaviour are more politically attainable, especially when the financial and environmental long-term bottom lines are so intertwined.

BREATH OF FRESH ENERGY

If we had a long-term vision in mind for Canadian sustainability, particularly the integrity of the Canadian airshed, we might proceed differently.

For example, there has been little coordinated investment in a visionary project that would bring energy prosperity to the entire country: a national electricity grid. The $1 billion currently on the table for CCS could instead be used to attract those utilities and provinces that take the first steps in building it.

The money could alternatively be used to create an international competition on developing Canada's considerable geothermal electricity potential. Geothermal is perhaps the one renewable energy source in which Canada has a demonstrable competitive advantage in terms of supply, and we could develop a similar technological advantage.

That kind of lateral, grand thinking will likely be required to supply the demands for electric car infrastructure in both Canada and the U.S., an undertaking that would have the ultimate effect of displacing some oil-sands-source-fuel.

These two initiatives would demonstrate internationally that Canada was serious about sustainability, invite more foreign investment into our country, bring meaningful reductions in carbon emissions, and help unify Canada around sustainability.

> **TREES, PLASTIC, WATER, AND WILDLIFE:**
> **THESE ARE NOT ESOTERIC, HARD-TO-UNDERSTAND IDEAS.**

At home and abroad, fiscal policy changes could redefine the Canadian approach to sustainability, and help Canada get the Maple Leaf Seal of Approval.

But not everyone gets excited about taxes.

SUCCESSES UNRECOGNIZED

Two other efforts, already underway but not yet appearing in climate change politics, can help Canada brand itself around sustainability. The problem is politicians don't seem to recognize them for their international cachet, or embrace them as truly Canadian.

The first is one of the great Canadian environmental successes of the last generation, the 2010 Boreal Forest Agreement, brokered between 21 forestry companies and 9 environmental non-governmental organizations.

In any other country, the protection of 72 million hectares of forestland—the size of Germany and France combined—in an effort to preserve large corridors for use by the endangered woodland caribou would be a signature political event.

In Canada, government and its politicians were relatively absent in promoting the agreement, and as a result, Canadians missed out on the deal's significance.

The Boreal Forest Agreement effectively creates of one of the planet's great carbon sinks (as long as all of the forests are protected over the long-term—some are only protected for an initial three-year period). It should be a core part of Canada's international branding. But even at home, many Canadians still haven't heard about it.

The second effort comes packaged in consumer plastics. Bisphenol-A was a substance that most people in the developed world dealt with every day in water bottles. After research showed that the substance could be toxic, especially in young children, Canadian activists and journalists jumped on the issue. In September 2010, Canada was the first country to declare bisphenol-A a toxic substance.

MAPLE LEAVES NOT PLASTIC TREES

Trees, plastic, water, and wildlife: these are not esoteric, hard-to-understand ideas. They are not matters of tax policy, but concrete things in our daily lives. They relate to the safety of our children and to the icons on our icons. And on two major issues that touch on things that people everywhere value, Canadians are leading by example, showing that the more sustainable solution is the better one.

This sense of stewardship—as large as Western Europe or as small as a baby's bottle—could be integral to the Maple Leaf Seal of Approval.

But Canadian leaders have failed to communicate.

At the micro and the macro-levels, the conditions to create an internationally recognized brand of Canada as a sustainability champion, exist.

It's time to summon the political will to get there.

Beating out the dirty competition

by ALLISTER MCGILLIVRAY

Don't tell Kermit, but it just got easier being green.

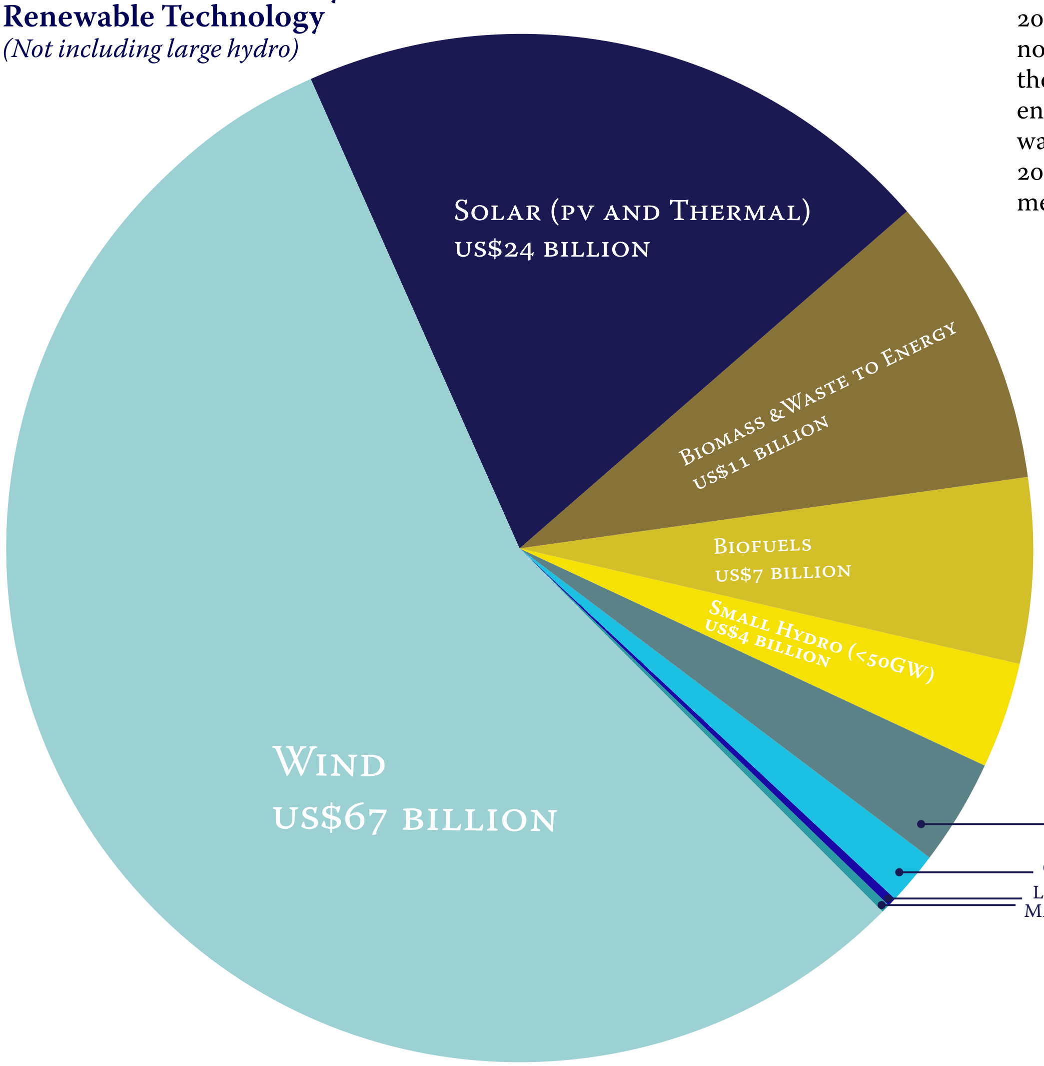
For the second year in a row, 2009 saw more money invested worldwide in new renewable energy capacity than in new fossil fuel capacity.

According to the Renewable Energy Policy Network for the 21st Century's *Renewables 2010 Global Status Report*, US$162 billion was invested in new renewable energy capacity and manufacturing plants in 2009, a fourfold increase from 2004.

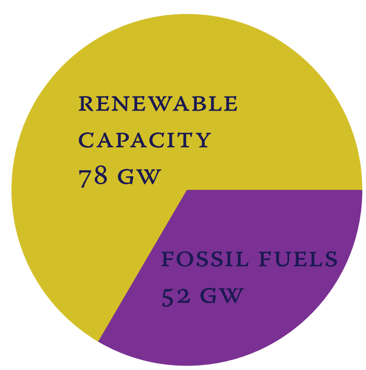
In the United Nations Environment Program's sister report *Global Trends in Sustainable Energy Investment 2010*, Renewable energy accounted for 60 per cent of new capacity installed in 2009, or 78 gigawatts (GW). Of that capacity, 50 GW was new renewables and 28 GW was large hydro.

The report notes almost all renewable energy industries experienced growth in 2009 despite the continuing global economic crisis. Initial findings for 2010 show the trend continuing: investment in clean energy assets, not including large hydro, was US$29.5 billion in the first quarter of 2010, which is 63 per cent above the investments in the same period of 2009.

2009 New Investment by Renewable Technology
(Not including large hydro)



2009 Capacity from renewable sources compared with fossil fuels



THE TRUTH ABOUT CARBON EMISSIONS

2

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