



## Covering Sustainable Investing: The Acuity Clean Environment and Social Values Funds.

### Fuel Efficiency – lucky for those loopholes!

The New York Times (January 13, 2004) recently reported that Subaru had found an ingenious way to avoid fuel efficiency standards – calling a car a truck. Since the US Corporate Average Fuel Efficiency Standards apply to cars and not the more popular SUVs, Subaru has added a few inches here and there allowing the Outback car to be classified as a light truck. This has been a successful strategy used by other manufacturers such as Chrysler for vehicles such as the PT Cruiser.

The fuel efficiency debate has been fierce in the last year as regulators in the US have resisted attempts to tighten industry standards. This stance comes despite the decline in overall fuel efficiency over the last 20 years and the pressing need to reduce US dependency on foreign oil.

**Insight** – look for increased penetration of hybrids into the light truck market. This marriage of battery/electrical and gasoline/combustion technologies provides significant improvements in efficiency with no reduction in performance – compromises generally win! Unfortunately the cost is currently significantly higher than traditional engines, even for the compact cars currently available with this option. Japanese manufacturers such as Honda have generally led the R&D and commercialization of hybrid technology.

### Good Reading

Here's an interesting read: [The Soul of Capitalism – Opening paths to a Moral Economy](#), by William Greider (Simon & Schuster). Mr. Greider challenges the current limitations of the capital markets, noting that the drivers present in the

investing industry tend to contribute to ethical lapses or a loss of 'soul'. A little long on his criticism of the markets, Mr. Greider nevertheless makes a strong point about the need for a moral basis for investment decisions – sounds like SRI to me. Despite its criticisms the book makes a strong case for optimism that the market can change for the better.

**Insight** – watch for the ethical spins emerging in industry. The hottest job in town appears to be Head of Corporate Social Responsibility (CSR) while the PR firms, never ones to miss out on a new spin, launch their own CSR divisions. Soon coming to a network near you – “CSR Miami”!

### Where's the Fuel?

Despite increasingly tight supply conditions for gasoline in North America, comments from industry players indicate that refineries are more likely to shut than pick up production. The Financial Times (November 23, 2003) recently highlighted the impact that tightened regulations are having on this environmentally challenged sector. The FT noted that “Industry Executives say some 20 of the US's 123 refineries producing gasoline and diesel are likely to shut instead of making the upgrade needed to meet new environmental laws coming into force in 2-3 years”. Meanwhile gasoline demand has been growing 1-2% per year.

**Insight** – watch for companies that are developing alternatives, such as **Westport Innovations Inc.**, whose injectors allow the use of natural gas in diesel engines with no loss in efficiency. Other beneficiaries include **Chicago Bridge & Iron Company** which is involved in upgrading refineries to meet the new sulfur standards.

## Where's the Beef?

In a sign that the numbers are not always all that they seem to be, several large oil companies have recently slashed their estimates of reserves, resulting in sharp declines in their share prices (see Wall Street Journal, January 23, 2004). Since reserve estimates rely on interpretations of samples taken from beneath the surface of the earth, the uncertainty should not be completely unexpected. It is surprising that the market continues to value these estimates as though they were written in stone.

**Insight** – *reserve estimates are amongst the most scrutinized aspects of any oil producer's business and one might rank them fairly highly in terms of accuracy. It should be recognized that environmental and social data receive far less attention within the corporate hierarchy. For this reason, any rankings of companies which claim that one company has an absolute advantage over another based on environmental/ social data should be treated with caution.*

## Tainted Beef

Aside from the cross-border politics associated with locating the source of the recent bovine spongiform encephalopathy (mad cow disease) case, one of the more interesting elements has been a focus on what our cows eat prior to their slaughter. Moves have been 'a foot' to limit or ban the use of animal parts (for their protein) as an animal feed. Instead emphasis would be placed on protein derived from plants such as soy. Given the recent debate over farm raised salmon, the controversy is not limited to dry land.

**Insight** – *an emerging alternative to soy protein is derived from the canola plant. An early stage Canadian company, Burcon Nutrascience (currently held in the Clean Environment Mutual funds), is quietly working with the worlds largest food processing company, Archer Daniels Midland, to commercialize canola proteins based on a patented Canadian process. The company plans to roll out the protein first as animal feed and then as a replacement for more expensive and problematic animal proteins used in a wide range of foods consumed by humans.*

## Believe it or not...

Toronto Hydro Energy Services recently released a report on bird mortality associated with the operation of the new wind turbine located at Toronto's waterfront. The research was conducted due to the concern of some groups that electricity generated from wind turbines might better be termed 'Edward Scissorhands Power'. The report found, conversely, that all but three (!) birds intelligently avoided the hazard. More difficult to avoid seem to be the tall buildings of downtown which kill thousands of birds each year.

Continuing the 'not in my backyard' theme, homeowners in California have now turned on those who have placed non polluting solar technology on their roofs (Wall Street Journal, February 25, 2004). Preferring suburban design conformity to fresh air, these groups have lobbied their municipalities to restrict the use of solar paneling within their communities.

**Insight** – *Given that innovation often entails trying something new, and that there is always resistance to change, look for solar panel manufacturers to focus on integrating the technology into building materials. We are still some way from a commercial application that meets technical and design requirements, but when one is available it will likely ramp quickly.*

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