



HEALTH

## Obesity equals cash for Bay St.

**JOHN SHMUEL**  
FINANCIAL POST

**TORONTO** Efforts to fight the rising rate of global obesity are opening new opportunities for investors, says a new report from Bank of America Merrill Lynch.

There are currently 2.1 billion overweight people in the world, with 671 million of them classified as obese. The report notes most countries are trying to decrease that number for health reasons, but little progress is being made and health-care costs are rapidly expanding as a result.

"We believe that the obesity epidemic may be the most pressing health challenge facing the world today," said Sarbjit Nahal, equity strategist and lead author of the report. "The number of overweight or obese people has tripled

Jim Ellis, CEO of Alberta Energy Regulator, says focusing on the environment has become of "critical importance." POSTMEDIA NEWS/FILES

# Environment no longer on back burner

## Energy regulator admits there's work to do to meet public goals

**YADULLAH HUSSAIN**  
FINANCIAL POST

Alberta's energy regulator is working on improving a number of environmental regulations and rolling out new programs during the next two years as it looks to meet public expectations.

"We have always been in the environment game, but now it is of critical importance," said Jim Ellis, CEO of Alberta Energy Regulator. "We are going to be working in the environment regulations as we move forward in the next year or two."

Last year, the province merged three regulatory entities to create an independent, single-window entity to assess the full cycle of energy development from exploration and construction, to reclamation and remediation of land.

The old regulatory system was "horrendous" Ellis admitted.

Some applications that had a 30-day target were taking 300 days to process.

"We have made a lot of mistakes and we have learned our lessons. We are stepping out now with a major initiative which is the best-in-class regulatory process."

The new model was viewed with some skepticism early on and the announcement of Gerry Protti, a former president of the oil industry lobby Canadian Association of Petroleum Producers, as chairman of the AER board also raised eyebrows.

But the AER argues the chairman and directors are part-time officers of the AER who stay clear of the organization's day-to-day operations and decisions.

Chris Severson-Baker, acting managing director of The Pembina Institute, said it is too early to offer a clear verdict on the regulator, but the new entity seems more open than its predecessor, the Energy Resources Conservation Board. The AER's decision to set out a three-year strategy should also provide greater transparency.

"There are lots of overtures being made to different groups, different environmental communities have received the message from the AER that they are interested in more engagement," Severson-Baker said.

Some improvements are slowly becoming apparent. Ellis said the unified body has found \$60 million in savings in its first year, without

The new regulatory changes will include reviewing regulations, apart from reviewing aging infrastructure, and rolling out a 'play-based' regulatory model.

"The (aging infrastructure) is a liability for companies and it's important for their social licence with their community," Ellis said, noting that it's a balance sheet issue for most corporations.

While AER does not have a dollar figure of the cost of improving or replacing the infrastructure, the province regulates 415,000 kilometres of pipeline and 181,300 operating wells in the province alone.

"We are going to work with companies in the coming year on how we can solidify this, and put some certainty in the regulatory system of what we need them to do," Ellis said.

AER's "next big thing" for 2015 is to roll out a regulatory process that takes into account overall risks to an oil or gas play. The so-called play-based regulation encourages planning by operators working in an area to minimize the environmental impacts of development



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and is being tested by companies in the Duvernay basin as a pilot project.

"It is a very different model to regulating," Ellis said. "Landowners and stakeholders are overwhelmed with companies coming in and consulting, but they don't

The AER has also taken a piecemeal approach to regulating by approving 90 per cent of TransCanada Corp.'s 900,000-barrel-per-day pipeline Grand Rapids Pipeline project in October. Landowners still have concerns on a portion of the Fort McMurray-to-Edmonton pipeline, and the AER has instructed the company that while it can proceed with the project, it must resolve issues with landowners on the remaining 10 per cent.

"It's like a deliberate, staged approach as opposed to try to develop the whole thing," Ellis said. "And there is a risk, because as we told the company 'if you can't get it sorted out, you won't be able to connect with the hub in Edmonton.'"

Critics are demanding more from Canadian regulators especially on curbing greenhouse gas emissions, but the government's reluctance to place stringent measures on the oil and gas sector, has made it difficult for regulators to balance public expectation with government policy.

"We are generally comfortable that we are getting good direction from the government," Ellis said, noting that as an arms-length entity from the government, the AER cannot set policy, only implement it. "On the GHG file, we have the \$15-a-tonne levy on 100,000-tonne emitters. Although that's recognized around the world, there is obviously a demand that Alberta and Canada do more."

The old ways of regulating are gone forever, Ellis said, noting while Canada's energy regulators can hand out licences to operate, companies still need to secure a social licence from communities and the wider public.

In many ways the AER is seeking a social licence of its own, which is why at the heart of all its efforts, the regulator is keen to enhance its own reputation.

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author of the report. "The number of overweight or obese people has tripled since 1980 by 2030, close to 50 per cent of the world's population is projected to be overweight or obese."

The report highlights some entry points for investors to play what it calls the fight against "globesity," specifically stocks in pharmaceuticals and health care, food retail, weight-loss and nutrition, and sports apparel and equipment.

Medical stocks are one of the hottest entry points, given the impact obesity has on health. In a report last month, Canaccord Genuity said that obesity is the "next big thing in medical devices."

Canaccord analyst William Plovanic identified EnteroMedics Inc., which develops neuro-blockers to treat obesity, as a promising company. He rates the stock, which closed Thursday at \$1.40 US on the Nasdaq, as a buy with a \$4 US price target.

Nahal of BofAML, meanwhile, sees more than a dozen health-care and medical device companies as potential buys, including Arena Pharmaceuticals Inc., MannKind Corp. and Tandem, Inc.

"Healthcare and medical device companies are playing an increasingly important role in dealing with the impact of obesity-related co-morbidities, including heart disease and failure, Type 2 diabetes, kidney failure, respiratory complications, osteoarthritis and incontinence," he said.

Beyond health care, Nahal notes that food companies that fill the demand for organic and healthier foods should also benefit in the coming years as con-

environmental regulations and rolling out new programs during the next two years as it looks to meet public expectations.

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Canadian energy regulatory authorities are under intense public scrutiny as they look to strike a delicate balance between economic development and environmental concerns that has plagued the Canadian oil and gas sector.

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"There are lots of overtures being made to different groups, different environmental communities have received the message from the AER that they are interested in more engagement," Severson-Baker said.

Some improvements are slowly becoming apparent. Ellis said the unified body has found \$60 million in savings in its first year, without affecting staff of 1,200 and without compromises on environmental oversight. The streamlined body has also saved the industry \$120 million to date by eliminating unnecessary procedures, Ellis estimated.

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"It is a very different model to regulating," Ellis said. "Landowners and stakeholders are overwhelmed with companies coming in and consulting, but they don't have an overview of the overall development plan."

Pembina's Baker said the process is a good example of the AER taking a lead. "It should lead to a comprehensive stakeholder engagement process," he said.

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"We are on the international stage," Ellis said. "We are going to be dealing with world markets and it's critically important for people that are buying our product to have confidence that it's being produced in an environmentally sustainable manner."

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Beyond health care, Nahal notes that food companies that fill the demand for organic and healthier foods should also benefit in the coming years as consumers shift toward a more health-conscious mindset to combat obesity. He identified stocks such as Sprouts Farmers Market Inc. and United Natural Foods Inc. as good bets.

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