Indigenous Peoples' and Other Stakeholder Reaction to an Unacceptable Proposed Corporate Investment: The Northern Gateway Oil Pipeline Project

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Abstract

The economic consequences of a First Nations response to Enbridge and the voicing of concerns over the violation of human rights resulting from the proposed Northern Gateway pipeline are examined. Despite overwhelming opposition and contrary to indigenous rights, the proposed pipeline was to cross more than 50 territories claimed by First Nations. The pipeline would transverse through unique ecosystems that are home to endangered species, and tankers would travel through one of the largest undeveloped temperate rainforests in the world. Given Enbridge's history with oil spills and environmental violations, potential future oil spills are a serious concern. Because of these concerns, stakeholders have engaged in historical displays of activism. This study examines the unprecedented termination of this project given pressure from Enbridge's stakeholders and, in particular, the Indigenous peoples involved. The economic consequences of stakeholder activism events during a seven-year period are analyzed for abnormal stock returns (AAR) around announcement dates using the Fama and French (1993) three-factor model. The results indicate that the market reacts negatively to human rights violation risk and environmental risk. The study provides evidence that the market factors these risks into its investment decisions, providing the impetus for accounting standard setters to mandate human rights violation and environmental risk disclosures. Furthermore, this study contributes to the evolving and emerging global business norms, regulatory requirements, and worldwide accounting reporting standards in terms of disclosing and accounting for indigenous rights violations and environmental risk.

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1. INTRODUCTION

Enbridge, the world's largest pipeline operator, has proposed the construction of a 1,170-kilometer pipeline stretching from the Alberta tar sands to the Kitimat marine terminal in British Columbia. This pipeline proposal, which won the backing of the previous Conservative Canadian federal government in 2013, is estimated to be worth $98 billion in total (federal and provincial) tax revenue collections and $70 billion in Canadian labor income per year (Joint Review Panel 18, December 2013). The United Nations (UN) Working Group on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises observes that, "States feel compelled to satisfy the requirements of big business at the expense of human rights and environmental obligations. Most commonly, there can be a lack of political will or capacity of States to respect their own human rights and environmental law obligations towards indigenous populations, given what is perceived to be at stake including but not limited to interest and potential income from foreign investors, potential economic benefits (either conspicuous or inconspicuous) and development of the country (at the expense of a few)" (7 August 2013, pg. 2, section A 7.).

However, this pipeline proposal was greeted with strident opposition from numerous groups, most importantly the First Nations Indigenous peoples whose land the pipeline would affect. Most of the First Nations peoples are opposed to the project proceeding. They assert that Canada and Enbridge have failed to acknowledge their right to make decisions about their lands and resources, and that the project is in direct violation of the United Nations Declaration on the Rights of Indigenous People (UNDRIP) and contrary to internationally accepted business practices (Gilbert, 2013). Similarly, numerous environmental groups have shown strong opposition to the project. Further, Enbridge stockholders appear to believe that the numerous risks surrounding the project make it worth less than it will cost. Additionally, the most recently elected liberal Canadian government has shown little support for the project. As of May 2017, there is absolutely no indication that this pipeline project will happen. Thus, the Northern Gateway pipeline represents a pointed example of stakeholder activism acting effectively to halt a huge investment project.

We examine the proposed pipeline project and how Enbridge's approach to making the project happen has failed. We also examine the efforts of the First Nations peoples, environmental groups, Enbridge stockholders, and other stakeholders who have prevented the project from happening. Our study provides market-based evidence on how public opposition and stakeholder activism can significantly affect a company's stock price and ultimately halt a very large-scale project.

Canada had 2012 energy exports totaling $110 billion and its oil resources are estimated to be the third largest in the world. As previously noted, the total projected federal and provincial tax revenues and Canadian labor income attributable to the Enbridge pipeline have been estimated at $168 billion per year. Clearly, then, the ruling government has its own self-interests involved in either supporting the Northern Gateway or choosing not to do so at the expense of not being able to recognize the tax benefits of the pipeline happening.

At the same time, the importance of the First Nations to Canada's economy and identity cannot be over-emphasized. The First Nations are estimated to contribute $32 billion by 2016 through 36,000 businesses and governments. The importance of these people suggests that their concerns about the hazards of the pipeline should be paramount to the relevant governmental and corporate entities and, thus, be recognized and generate a response. The primary concerns with the pipeline are, first, that it faces geo-hazards, such as avalanches, earthquakes, deep snow, and heavy rains (National Energy Board, 2013). Second, the pipeline will affect numerous at-risk species and will cross at least 650 salmon spawning rivers. Additionally, concerns exist over how construction and maintenance activities will affect wildlife, rare plants, sensitive ecosystems, soils, wetlands, fish, amphibians, birds, old-growth forests, and surface and groundwater resources. Third, Enbridge has not received free and prior informed consent (FPIC) from the First Nations to conduct any type of operations on these lands. In doing so, Enbridge has violated First Nations' legal rights to both engagement and consultation.

In addition to the First Nations opposition to the Northern Gateway project, remarkably, Enbridge shareholders have expressed their opposition to this project on several levels. They are concerned with the firm facing material business risk, including litigation risk, operational delays, political risk, reputational risk, financial risk, and environmental risk. The sentiment is that management has not specifically accounted for these risks in a proper manner.

Using a regression-based model (Fama and French, 1993) and cumulative abnormal excess returns (CAARs) from the announcement day period, significant economic consequences (assessed using CAAR tests for market reaction) from all of these events are examined through the impact on Enbridge's share price. We find that the market reacts with a significant negative response to First Nations' announcements regarding violations of their rights attributable to the Enbridge project. Further, the market reacts negatively to both the First Nations' and environmental activism events that are a response to Enbridge's actions. Thus, Enbridge suffers material economic consequences for these perceived violations. Conversely, announcements by Enbridge generate no significant positive or negative response, suggesting that its positive announcements do not generate "good news" and its negative announcements are not a surprise. Yet, the negative impacts of the First Nations and environmentalist activism that we find on Enbridge's stock price are not observed on the market prices of Enbridge's business partners.

Our analysis leads us to conclude that the public opposition to the Northern Gateway project by the First Nations, public support groups, environmental groups, and governmental units shows strong support for the parties opposed to the project. We offer evidence on the question of "what matters most to stockholders." Is their priority "profits at any cost" (economic insatiability) or responsible concern for the firm's stockholders and other stakeholders regarding the protection of indigenous rights and the environment (stakeholder activism)? We conclude that investors do indeed factor indigenous rights and environmental concerns into their investment decisions at the expense of current profits, or perhaps by taking into account future profits.

The results suggest several points for the accounting industry going forward. First, the expected costs and potential liability of indigenous rights violation risk and environmental risk are not currently stated in financial reports in a transparent manner. Thus, investors are extremely vulnerable to the associated costs that a business may incur if making such an investment. Thereby, stakeholders are entitled to have these risks reported on audited financial statements and corporate social responsibility reports. Second, U.S. regulators are paving the way by mandating stock listing requirements that address human rights via Dodd–Frank 1504. Additionally, the Global Reporting Initiative, the world's most widely used sustainability-reporting framework, includes a reporting standard requiring business to disclose the number of indigenous rights violations and actions taken. Third, our findings are timely because the natural resource industry and the First Nations in Canada estimate resource projects from the First Nations in the near future to be worth more than $600 billion (Daly, 2013). In sum, we conclude that accounting standards must change to reflect, and account for, indigenous rights and the potential costs to firms. If properly done, the benefits will accrue to all stakeholders and not just the stockholders—or the firm.

This research is organized as follows. Section 2 discusses the Canadian setting, Enbridge, and previous research work, and addresses this paper's relation to these subjects. Section 3 describes the data and research methods employed. Section 4 describes the research findings. Section 5 summarizes our findings and makes conclusions.

2. CANADIAN SETTING AND LITERATURE REVIEW

A. The Importance of Oil to Canada

Canada is rich in energy resources, and energy represents 25% of its total exports (Eyford, 2013). Energy exports are an important component of the economy, and totaled $110 billion in 2012 or approximately 6% of Canada's total gross domestic product (GDP) (National Energy Board, 2012). Canada is the sixth largest oil producer with the third largest petroleum reserve in the world, and oil production contributed $17.2 billion in capital spending and $18 billion in royalty and tax revenue in 2012 alone (Canadian Association of Petroleum Producers, 2013). Given current economic policies, Canada depends on oil for both job creation and economic growth. Canada has set its sights on diversifying its energy commodities to meet this demand because the global demand for oil by developing countries is expected to grow. Media outlets citing CIBC economist reports warned that Canada is losing as much as $50 million to $100 million a day because it is forced to sell its oil at a discount to its sole customer, the United States (Financial Post, 3 April, 2013). However, economist Robyn Allan (2013) refuted this amount, suggesting that the loss is exaggerated because of double counting. Regardless, the United States has plans in place to be self-sufficient in the near future.

Ethical opposition also exists to the oil sands development and its effect on climate change, making Canada's reliance on the United States even more perilous. Consequently, Canada needs access to new markets to receive world value for its crude, and China is eager to become Canada's primary customer. The projected economic benefits of diversifying are staggering to both the oil industry and the Canadian economy. Diversification would trigger billions of dollars in annual revenue increases for oil producers, translating into increased capital spending, tax revenues, and royalties. As a result, Canada has set the stage to build infrastructure to support the diversification of its energy resources to Asia. Given that the majority of the proposed projects related to energy affect the First Nations' rights to their land and resources; they have emerged as one of the most important stakeholders in the energy sector.

B. First Nations and Their Right to Free, Prior, Informed Consent

As previously described, the First Nations peoples have a tremendous impact on Canada's economy, contributing $32 billion to GDP by 2016 across businesses and governments (Morriseau, 2013). Canada is at a historical juncture with respect to the advancement of oil, gas, mining, forestry, and agriculture projects. Both domestic and international laws protect the First Nations basic human right to make decisions about their land and resources. These rights, called Aboriginal Title, were protected in 1982 through the Canadian Constitution - Section 35 (Indigenous Foundations) and were later defined in court through the Delgamuukw (1997), Taku River Tlingit (2004), and Haida Nation (2004) decisions (Parliament of Canada, 1998; Judgements of the Supreme Court of Canada, 2004). Further, the Constitution establishes that governments have a duty to consult and accommodate Indigenous peoples regarding development impacts, and indigenous groups have the right to make decisions about indigenous land and resources. The government can also require businesses to perform certain aspects of consultation.

However, Aboriginal Title has never been proven in Canada's courts. Instead, Canada has attempted to negotiate treaties and interim contracts with respect to land and resource ownership, use, and management. Most First Nations peoples will not cede their right to Aboriginal Title in exchange for limited treaty benefits. This situation has created controversy in cases in which land and resource assertions by the First Nations remain unsettled and businesses have been entitled to move forward, with opposition from First Nations.

Barelli (2012) notes that "by virtue of their right to control natural resources for national development goals, States claim that they can launch or authorize development projects on indigenous lands without necessarily having to obtain the consent of the Indigenous peoples concerned. Indigenous peoples, instead, maintain that their rights to self-determination and to own and control ancestral lands entitle them to oppose any unwanted plan. Different instruments and bodies have provided diverse answers to this difficult question, leaving the legal contours of FPIC rather nebulous" (pg. 31).

Tugendhat, Couillard, Gilbert and Doyle (2009) state that large-scale industrial and economic development has been undertaken without regard to or recognition of Indigenous peoples' rights. This development has been mostly imposed from the outside and consultation with the Indigenous peoples affected has been completely ignored. They further state that the coincident experience for Indigenous people attributable to these extractive ventures have both diminished their standards of living and eroded their rights. They cite a UN Centre for Transnational Corporations' study that concludes that the quality and quantity of Indigenous peoples' participation in the decision-making process was the chief determinate of multi-national firm performance regarding the respect shown for indigenous rights. A similar declaration has been made by the UN Working Group on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises (2013, pg. 9). Their affirmations state that the parties involved will act in accordance with traditional cultural practices that protect and encourage the customary use of biological resources. Further, national decision-making should integrate consideration of both conservation and sustainable use of biological resources.

Tugendhat et al. (2009, pg. 2) state that the United Nations Permanent Forum on Indigenous Issues is the preeminent body for addressing Indigenous peoples' issues. This body "defines free, prior and informed consent (FPIC) as a process undertaken free of coercion or manipulation, involving self-selected decision-making processes undertaken with sufficient time for effective choices to be understood and made, with all relevant information provided and in an atmosphere of good faith and trust." They further note that the FPIC process must be both iterative and consultative. When the process results in consent, a legally binding document should formalize the agreement. Conversely, the company must withdraw its application when consent is withheld.

Canada endorsed the right to FPIC in 2010 when it became a signatory to the United Nations Declaration on the Rights of Indigenous People (UNDRIP, 2007). The right to FPIC is codified explicitly in international and domestic laws, and businesses and governments are obliged to obtain FPIC for any project that may affect these rights. Countries such as the Philippines have incorporated FPIC into domestic law (Tamang, 2005). Financial institutions require businesses to obtain FPIC to qualify for financing through the equator principles. Investors have the ability to access information about businesses' commitments to FPIC through resources such as the Calvert Index and the Business & Human Rights Resource Centre. Institutional investors have committed to the UN supported principles for responsible investment to reflect the increasing relevance of issues such as indigenous rights. The relevance of indigenous rights is without doubt an emerging global issue.

In the case of the Northern Gateway, most of the First Nations impacted by the pipeline are opposed to the project proceeding. They assert that Canada and Enbridge have failed to acknowledge their right to make decisions about their lands and their resources and that the Project is in direct violation of the UNDRIP and contrary to internationally accepted business practices (Gilbert, 2013).

In contrast, Canada views the concept of consent as aspirational even though a recent court decision favored an interpretation that would embody the values of the UNDRIP (Burchells, 2013). Businesses often choose to follow Canada's lead and refuse to prevent impacts to the Aboriginal Title or obtain FPIC. They hide behind the assertion of "unresolved land claims" and use it to their benefit to proceed with projects that the First Nations oppose. With more than two-thirds of the First Nations in British Columbia falling into the category of unresolved land claims, a plethora of energy resources contained within these lands, and businesses' rush to reap economic benefits, a storm has been brewing for decades (First Nations, 2013).

The Northern Gateway project brings this to the forefront and is one of the most controversial and politically divisive projects in recent history because the First Nations peoples are most likely affected. "It is generally recognized that the most impoverished in our global community are Indigenous peoples and local communities, who rely on the environment and ecosystems for their very identities, cultures, livelihoods, and well-being. It follows then that damage to the environment most acutely affects Indigenous peoples and local communities and their basic human rights" (UN Working Group on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises, 2013, pg. 6).

C. Enbridge and the Northern Gateway Pipeline Project

The $7.9 billion Northern Gateway, a limited partnership formed in 2004, is a proposal by Enbridge, the world's largest pipeline construction company based in Calgary, Alberta. Enbridge proposes to build the greatest infrastructure in Canada's history to provide the means for Canadian oil to access world oil markets. Enbridge and ten other energy companies have invested more than $450 million to develop the proposal. The economic benefits associated with the Northern Gateway include a "$312 billion increase in Canadian gross domestic product, $44 billion in federal revenues, $54 billion to provincial or territorial governments, $70 billion in Canadian labor income, 907,000 person years of employment over 30 years" (Joint Review Panel, 18 December, 2013).

The project involves the construction of two 1,178-kilometer side-by-side pipelines and a marine terminal in Kitimat on the west coast of northern British Columbia. The pipelines will carry an average of 525,000 barrels per day of bitumen west to Kitimat and an average of 193,000 barrels of condensate per day east to Bruderheimand, Alberta. Condensate would be sourced from the global market and used to dilute the bitumen enabling it to flow through the pipeline. "There will be a 25 meter wide right of way along the pipeline route and an additional 25 meter wide working space would be reclaimed after construction. Ten electric powered pumping stations would be located along the route with 4-hecatre fences around them" (Joint Review Panel, 18 December 2013). The Kitimat Marine Terminal consists of two ship berths and storage for three condensate tanks and 16 oil storage tanks. The terminal would also include a radar monitoring station and first response capabilities. Between 225 and 250 super tankers, a year would primarily transport bitumen to the Canadian terminal, and then ship crude back to the Asian markets. Currently, no existing crude oil tanker traffic exists in the proposed waterways of the Northern Gateway. A voluntary moratorium keeps tankers about 100 kilometers from shore. Enbridge's responsibility for oil spills ends at the pipeline. If the project receives final approval from the federal government by the end of June 2014, its expected completion is 2018.

In the case of the Northern Gateway, Enbridge intends to transport oil called bitumen, which is a high-risk commodity with associated dangers. There is concern over the health risks of an oil spill on land or water given the harm from exposure to the polycystic aromatic hydrocarbons (PAHS) contained in bitumen. PAHS is a known carcinogen that persists long after an oil spill has occurred. Additionally, the condensate that Enbridge will transport to dilute the bitumen to enable it to flow through the pipeline has associated risks. A spill of condensate releases a vapor that is toxic to humans and wildlife (Carrier Sekani Tribal Council. 2011).

There are also concerns that the Northern Gateway will enable the expansion of the oil sands, which will contribute to climate change. Alberta's oil sands are said to hold the dirtiest oil in the world because the oil creates three to five times more greenhouse gas emissions than conventional oil. The creation of a pipeline to export Canada's oil to new markets will enable the oil sands to grow and will increase Canada's emissions. In light of current global climate policies, the Northern Gateway will take Canada in the wrong direction. Climate change and greenhouse gas emission impacts were completely ignored during the Joint Review Panel, whereas the United States rejected the Keystone pipeline in part because of the climate change issue (Cattaneo. 4 October 2013).

Regarding oil spills from the pipeline, Enbridge is responsible for $100 million in "ready cash" that can be accessed within days of a large spill to help with cleanup, and $950 million in liability coverage, as well as financing a heavy oil spill research program (Joint Review Panel, 2013). However, even with these measures, a spill in remote areas of British Columbia could cost billions to clean up. During the Joint Review Process, Enbridge was questioned about what would happen after insurance runs out. "There was not a direct answer provided" (Vancouver Observer, 21 September 2012). Canadian residents seem at risk of a heavy tax bill in the event of an oil spill from the Northern Gateway (Coastal First Nations, March 24, 2013). In addition, these estimates do not take into account "loss of ecological values, social problems associated with a spill, costs of strained community relationships, losses related to homes, or uncertainties associated with the effects" (National Energy Board, 2013).

As pipeline politics take center stage in North America, Enbridge has found itself in the middle of a high profile controversy concerning human rights violations. The process of obtaining approval for the Northern Gateway has violated the First Nations' legal right to meaningful engagement and consultation. The First Nations originally put forward an Aboriginal process framework that would work in parallel to address their concerns, rights, and title. However, the proposed framework was rejected and a federally appointed process was chosen instead (CBC, 11 January 2011). Carrier Sekani Tribal Council Vice Chief Terry Teegee asserted that the First Nations were not included in the creation of the joint review agreement: "We wanted to review the terms of reference and have input into it" (Williams, 2009, pg. 2). The Sea to Sands Conservation Alliance (2009) states that government reviews are too narrow in scope. "Aboriginal rights are not sufficiently addressed, particularly their right confirmed by the Constitution and the common law. Several local First Nations in our area (Carrier Sekani Tribal Council, Takla First Nation and Nadleh Whut'en) …state that their Aboriginal rights are being violated" (pg. 2). The Alliance asserts these groups have a right to FPIC with respect to development in their territories and the Joint Review Panel does not have the legislation to address their rights and to make decisions on their behalf."

Enbridge became further entrenched in the controversy when the Federal Government abdicated its duty to consult with the First Nations for Enbridge. The Joint Review Panel found that "the company could have done more to clearly communicate to Aboriginal groups how it considered, and would continue to consider, information provided by them" (Joint Review Panel, 18 December 2013). Enbridge did not incorporate much of the First Nations traditional land and marine knowledge into their assessments. The First Nations were not provided with adequate resources to obtain unbiased information, the necessary expertise to evaluate the information, or the means to participate in all of the assessments and reviews.

McCreary and Mulligan (2014) note that the Enbridge project is the focus of international controversy because, first, it would allow global marketing of the vast Canadian bitumen reserves without passing through the United States. Second, leading climate scientists claim that this increase in bitumen extraction will push humanity-caused drivers of climate change past tipping points.[1] Within this context, the focus of their paper is to examine the resistance of Indigenous peoples to the Northern Gateway permitting process. "We are particularly motivated by a concern about the exclusion of Carrier Sekani claims to jurisdiction over their territories from Canadian regulatory processes. If a project will affect the traditional territories, reserve lands, or settlement areas of an Aboriginal group, the National Energy Board (NEB) Filing Manual requires that proponents consider traditional land

[1] K. Zickfeld, Greenhouse gas emission and climate impacts of the Enbridge Northern Gateway pipeline. Written evidence submitted to the JRP for Living Oceans Society, Raincoast Conservation Foundation, and ForestEthics.

and resource use in their regulatory application" (pg. 116).[2] To fulfill the requirements regarding the Aboriginal traditional knowledge (ATK) of the Canadian Environmental Assessment Agency, "Enbridge has submitted detailed information on Aboriginal traditional land use, potential effects of the proposed development, and plans for mitigation with its Northern Gateway application" (pg. 116).

The ATK process currently being used categorizes/considers indigenous authority based on its current state (being) in the context of colonialism and the dispossession of native people. McCreary and Mulligan (2014) state that the inclusion of ATK in the permitting process has been shown to add concreteness to the concept of being an indigenous person in terms of both a knowable and a politically constrained condition. Although this represents progress, they caution that "these politics of recognition cannot fully contain the contingent processes of indigenous becoming" (pg. 125). Their conclusions may be interpreted as suggesting that the current interpretation of indigenous being acts as an impediment to moving forward and recognizing what indigenous status needs to become.

D. Accounting for Human and Indigenous Rights

The contention of the authors concerning two central issues at the heart of this research is as follows. First, currently, indigenous rights violation risk and environmental risk are not stated transparently in the accounting statements currently required by IASB rules. Thereby, investors are extremely vulnerable to the associated costs that a business may incur. Second, both shareholders and other stakeholders are entitled to have these risks reported on financial statements and within corporate social responsibility reports. In the following discussion, we provide a limited overview of the literature that starts with the most basic question of whether corporations should be required to consider human rights in their decision making at all. We end where the state of accounting for human rights currently stands and note possible approaches for improvements in the future.

In an essay in the *New York Times*, Milton Friedman (1970) states, "the sole responsibility of business is to increase its profit" (quoted in Kruger, 2015). Hsieh states (2015, pg. 218), "we have reason to reject assigning human rights obligations to business enterprises and their managers." He argues further that doing so risks undermining the human rights ideal that all members of society are viewed as moral equals by the state and by one another. He is ultimately concerned that assigning

[2] The manual indicates three circumstances requiring detailed information about traditional land and resource use: 1) "The project would be located on, or traverse, Crown land or the traditional territory, reserve land or settlement area of an Aboriginal group;" 2) "The project may adversely affect the current use of lands and resources by Aboriginal people;" or 3) "There is outstanding concern about this element of the project, which has not been resolved through consultation." NEB, Filing Manual (Calgary: National Energy Board Publications Office, 2004 [revised 2012]), pp. 4A-29.

human rights obligations to companies is problematic for two reasons. First, in their role as economic actors, treating all employees equally seems unduly demanding and incompatible with the requirements of economic activity. Second, assigning human rights obligations to multinational enterprises (MNEs) retreats from status egalitarianism because it limits the scope to which equal status applies.

Hsieh uses an appropriately concrete example to distinguish the MNE's responsibility for respect, which is "to avoid infringing on the rights of others" (Ruggie, 2010) from the requirement to promote others' rights. His example is to consider "the right to an adequate education. Such a right is normally understood as a claim right, meaning the rights bearer is entitled to press her claim to education against those to whom the corresponding duty applies. … The right to education is a claim right with respect to the state, but, with respect to MNEs, it is no longer a claim right but rather a liberty right—a right against interference" (pg. 229).

On the opposite side of this issue, Chetty (2011) argues that Professor Ruggie's report as the Special Representative of the UN Secretary-General on business and human rights, entitled *Protect, Respect and Remedy: A Framework for Business and Human Rights* (2008), was his most important work in that capacity. She further notes that this report "sets out a three-part policy framework of (1) the state obligation to protect human rights against human rights abuses committed by corporate actors; (2) the corporate responsibility to protect all human rights; and (3) the need for accessible and effective grievance mechanisms (Ruggie framework)" (pg. 760). Frankental (2011) draws on Ruggie's mandate, which includes his fundamental assertion that all companies have a responsibility to respect all human rights that they affect. Professor Ruggie's (April 2008) "*Report to Humans Rights Council*" states that globalization has led to corporate governance gaps that have permitted wrongful acts to be committed by many types of companies without adequate sanctioning or reparation (cited in Frankental (2011)). Frankental further notes that, "Professor Ruggie is right to draw attention to the fundamental barriers that exist to holding companies accountable for their human right impacts, rooted in complex international relations paradigms" (pg. 762).

McPhail and McKernan (2011) observe that business and human rights realization and abuse have been firmly linked, which represents a significant development in corporate accountability. They further note that the dominant and overt power relationships underlying the human rights discussion have been the subject of extensive critical legal research, whereas these developments have received very limited debate and analysis by both the critical accounting community and the accounting profession. Gray and Gray (2011) cite Mary Robinson's (former President of Ireland and former UN

Commissioner for *Human Rights*) appeal in February 2009 for business schools to "take on the challenge of human rights" (pp. 781–782).

Chetty (2011) comments on Article 28 of the Universal Declaration of Human Rights 1948, which states, "*Everyone is entitled to a social and international order in which the rights and freedoms set forth in the Declaration can be fully realised*". She states that the "implications of Article 28 must be that business should be held to account for human rights violations and furthermore must evolve their practices to take place in a world order that promotes the realisation of human rights for everybody" (pg. 761).

A relevant question for this research is as follows: for what human rights might MNEs be held accountable, specifically as they apply to Indigenous peoples? Previously in section 2, we discussed the right to FPIC specifically as it applies to Indigenous peoples' rights regarding the Northern Gateway project. The Boreal Leadership Council (BLC, 2012, pg. 3) notes that the UN Declaration on the Rights of Indigenous Peoples (UNDRIP, 2007) reaffirmed FPIC and "broadened the principle to include: a range of project development activities; the right to redress for lands, territories and resources that had been adversely affected; and a commitment by the state to obtain free, prior and informed consent of Indigenous peoples before approval of any project affecting their lands or territories and other resources." Canada has endorsed UNDRIP, but only considered it to be a "non-legally-binding, aspirational document" (BLC, 2012, pg. 5). Federal policy currently recognizes FPIC, but does not recognize Aboriginal rights requiring the consent of the community involved in the development. Banerjee (2008) notes that marginalized stakeholders such as Indigenous peoples receive more inadequate accountability information than more powerful stakeholders.

How should human rights be accounted for? Gray and Gray (2011) state that the Global Reporting Initiative (GRI, 2008) is probably "the biggest source of insight into human rights reporting…and has included a requirement to report on human rights for several years" (pg. 787). However, they note that how accounting calculations and measurements can or should be used to reflect human rights is unclear. They further note that an examination of human rights reporting offers insight into how human rights are intertwined with environmental, water, and land rights issues. They conclude that, "there is much to be done on matters of land rights as well as the accounting by and the accounting of First Nations" (pg. 788).

Jones (2011) concludes that instead of aligning human rights and corporate behavior, the recent expansion of corporate reports under the guise of corporate social responsibility has occurred largely to enhance a positive corporate image. Sikka (2011, pg. 824) comments on how the United Nations

Human Rights Council (2008, 2009) "seeks to connect CSR (corporate social responsibility) with human rights and recommends that alongside their assessment of financial and business risks, corporations should carry out a process of due diligence for their projects 'whereby companies not only ensure compliance with national laws but also manage the risk of human rights harm with a view to avoiding it…'" (UNHRC, 2008, paras. 25, 61).

Islam and McPhail (2011) examine the extent to which human rights language has entered the corporate accountability discussion. They research the adoption of the International Labor Organization's (ILO) human rights standards by large multinational garment manufacturers sourcing products from developing countries. They find an increasing number of disclosures since the ILO Declaration's confirmation and acceptance by the global community. Cooper, Coulson and Taylor (2011) explain that an understanding of how universal human rights' principles are translated into everyday practice is an important challenge for human rights accounting.

Gallihofer, Haslam and van der Walt (2011, pg. 765) "link human rights to notions of accountability and transparency (and hence to accounting) and elaborate how theoretical debates in the humanities and social sciences refine but do not displace the argument that governance for human rights is a meaningful pursuit and policy." They cite Ratner (2001), who suggests that corporations are more frequently seeing themselves as social-benefit providers where the state is unable or unwilling to do so. They also question the role of the IASB in promoting accounting for human rights and whether this effort should be quasi-law or mandated by states.

Gallihofer et al. (2011) note that, "Indigenous peoples are a good example of a marginalised group…corporate regard for indigenous people has been poor and not kept up with the increased awareness of their plight in the broader culture" (pg. 773). Neu (2000) sounds a very cautionary note about accounting for Indigenous peoples. He is concerned that the practical effect of actually accounting for Indigenous peoples has served to "translate neo-colonial policies into practice with the consequences of reproductive and cultural genocide and ecocide" (Cited in Gallihofer et al., 2011, pg. 774).

On a practical level, Gallihofer et al. (2011) suggest that resource-rich states may be able to alleviate human rights problems through spending programs, but there must be accurate accounting for them. They further suggest that government accounts should reflect resources spent toward addressing human rights issues. They note that, "if a state has many issues but does not spend even what it can reasonably afford on relevant programmes to tackle the issues, that would tend to make visible the State's (effective) lack of concern about and complicity in people's suffering." They further comment that, "where corporations have directly financed programmes to tackle abuses this may be disclosed through corporate accounts, potentially in reasonable and informative detail" (pg. 771–772). Conversely, where corporations are complicit in, or actually commit, human rights abuses, there may be accounting to make this visible. They cite the example of documented labor costs and timesheets being used to determine whether sub-standard wages are being paid or whether labor practices are unacceptable.

Gallihofer et al. (2011) proceed to question why the relevant, disaggregated accounting data are not required to be disclosed under current IASB standards. They suggest that the answer from the IASB's perspective is both political self-preservation and practical since the requirement of disclosing too much information may create competitive disadvantages. They continue (pg. 775): "In practice, what factors are crucial vis-à-vis, for instance, PWYP (publish what you pay) concerns? It is unlikely that economic costs are so crucial – given the possibilities of online reporting (Gallihofer et al., 2006) and that many TNCs (transnational corporations) already have the disaggregated information for internal control purposes. Additional audit cost should be minimal (Gallihofer and Haslam, 2007)" (pg. 775). They further conclude that although accounting is subject to political pressures that conflict, if significant global pressure can be put on TNCs, they will have to address this issue.

3. Hypotheses, Method of Analysis, and Data

The two competing hypotheses examined in this research are the economic insatiability (profits at any cost) hypothesis versus the stakeholder activism (responsible concern) hypothesis. The economic insatiability hypothesis is stated as follows:

> **Hypothesis 1:** *If shareholders are motivated purely by corporations acting to earn profits at any cost, announcements suggesting progress on the Northern Gateway project made by Enbridge, or government statements supporting or promoting the project, should generate significant positive market reaction.*

Conversely, the stakeholder activism hypothesis is stated as follows:

> **Hypothesis 2:** *If shareholders show responsible concern for the environment and the rights of Indigenous peoples then announcements that suggest harmful impacts on either entity attributable to the Northern Gateway project should generate significant negative market reaction.*

The types of tests we use in the analysis are described next. The implications that bear on the two hypotheses can then be properly drawn using direct reference to the representative variables. The data sample of stakeholder activist events draws from major news sources starting in 2005, shortly after Enbridge announced its intention to initiate the Northern Gateway project, and ending in June 2013 to coincide with the end of the Joint Review Panel hearings.

First, a univariate comparison of means and medians of variables representing information asymmetry, performance, and size compares Enbridge to a matched sample of 25 firms selected on the basis of four- and three-digit SIC codes. The test conclusions are based on Wilcoxon- and t-tests for significant differences in medians and means, respectively. The performance measures employed are return on equity (ROE), return on assets (ROA), and Tobin's q (TOBQ). The size variables are average total assets (ASSETS) and market value of equity (MVEQ).

In this study, the variables used to proxy for information asymmetry are: 1) the bid–ask spread (SPREAD), 2) the number of analysts who follow the company's stock (NUMEST), and 3) the standard deviation of the analyst's estimates of earnings per share (STDEST). Data for the NUMEST and STDEST variables were obtained from the IBES database for the month preceding the announcement date. Previous studies utilizing these variables as proxies for information asymmetry include, for example, Venkatesh and Chiang (1986), Chung, McInish, Wood and Wyhowski (1993), Coller and Yohn (1997), and Roulstone (2003).

If Enbridge exhibits significantly greater information asymmetry than its peers, an implication is that investors will perceive the firm's potential investment projects as embodying greater and (possibly undisclosed) risk. The responsibly concerned stakeholders are expected to view this negatively, whereas the profits-at-any-cost investors may favorably view this lack of transparency as indicating unexploited future profit opportunities.

Second, an event study is employed to examine the market response to announcements and press releases related to stakeholder activism. Announcements of events in which the First Nations and their supporters, the government, environmentalists, Enbridge, the oil industry, and non-governmental organizations actively opposed or supported the project were taken into account through a time series analysis over eight years. Events are drawn from news sources and categorized as First Nations Events, Environmental Events, Government Events, Company Events and Oil Spill Events. Government Events were further broken down into Joint Review Panel, Federal, Provincial, and Local Government Events. After the sample from 2005 to 2013 is collected and conflicting-event announcements are excluded, there are a total of 826 announcements of stakeholder activism concerning indigenous rights violations and environmental concerns. The events are broken down as follows: 207 First Nations events, 137 Environmental Events, 372 Government Events, (252 JRP events, 51 Provincial Events, 46 Federal Government Events, 23 Local Government Events), 61 Company Events, and 49 Oil Spill events.

Kruger (2015) and Elayan, Li, Liu, Meyer and Felton (2016) utilize an event-study approach to examine investor reaction to positive and negative firm corporate social responsibility (CSR) events. A similar research model is used to determine whether there are any economic consequences from stakeholder activist events on Enbridge's share price. Further, this analysis is used to examine the share price reaction to the same types of events for a comparison group of other companies that are either Enbridge's business partners or associated with the pipeline project. The data are analyzed for abnormal stock returns around announcement dates of stakeholder activist events related to the Northern Gateway project using the Fama and French (1993) three-factor model to describe stock returns. This model is effective because it uses more than one variable to describe stock returns and factors that may affect the measurement of abnormal returns. Specifically, firm size and the differential risk factors between firms with high versus low market-to-book equity ratio values are simultaneously controlled. The market reaction to stakeholder activist events is determined by computing the average abnormal return (AAR) on the basis of an ordinary least squares regression using 150 daily returns from trading day t = –210 through trading day t = –61 relative to the announcement date. The AAR for event date t is calculated as a simple cross-sectional average over the number of firms in the sample. The event windows analyzed are for the three-day (t–1 to t+1) and five-day (t–2 to t+2) cumulative average abnormal return (CAAR). These event windows allow us to capture the market's reaction. To ensure that the results obtained are significant and that conclusions can be drawn that stakeholder activist events are associated with abnormal returns, both the rank z-test developed by Corrado (1989) and the Jackknife z-test developed by Giaccotto and Sfiridis (1996) are used to test for the level of significance of the CAARs.

Finally, a cross-sectional regression model is used to examine the determinants of the CAARs. The dependent variable is the three-day announcement period CAAR and the specific form of the regression is as follows:

$$CAAR_{t-1,t+1} = \beta_0 + \beta_1 (SPREAD) + \beta_2 (NUMEST) + \beta_3 (STDEST) + \beta_4 (ROE) + \beta_5 (SIZE) + \beta_6 (TOBQ) + \varepsilon. \quad (1)$$

The three information asymmetry variables (SPREAD), (NUMEST), and (STDEST) are the same as those used in the mean–median analysis. The ROE variable is used as the profitability measure, SIZE is average total assets, and TOBQ is Tobin's q (=market value of equity/book value of equity), which is meant to capture growth opportunities. These last three measures are included as control variables in the regression and are examined in the mean–median analysis. Under the stakeholder activism hypothesis, indications of greater information asymmetry (i.e., less transparent operations) would be consistent with generating negative shareholder market reactions. If the economic insatiability hypothesis is correct, less corporate transparency is not an issue. In fact, the case might be made under this hypothesis that greater information asymmetry could be disguising potentially lucrative investment opportunities and thereby engender a positive relationship with market returns.

4. Results

A. Mean–Median Comparison Between Enbridge and a Matching Industry Group

Table 1 shows the results of comparing several analyst and performance measures for Enbridge versus a 25-firm industry sample group matched based on four-digit and three-digit SIC codes from the COMPUSTAT database. The SPREAD (bid–ask variable) and STDEST (earnings estimation error variable) for Enbridge are shown to be significantly higher than the comparison group. Further, the NUMEST (analyst-following variable) is significantly lower for Enbridge, by comparison. All of these consistent results show greater information asymmetry for Enbridge relative to its peers. This evidence clearly supports the stakeholder activism hypothesis.

The fundamental performance measures for Enbridge in Table 1 are also significantly lower than the comparison sample. The ROA and TOBQ measures, which represent earnings performance and potential investment opportunities, respectively, are both significantly lower. Based on ASSETS and MVEQ, Enbridge is significantly smaller than its peers. These results provide evidence that Enbridge is less transparent, less profitable, and exhibits fewer growth opportunities relative to similar companies.

Insert Table 1 about here.

B. Market Reaction to the Northern Gateway Pipeline Project as Perceived by Different Stakeholders

Table 2 reports Enbridge’s comparative stock price reaction to announcements regarding First Nations activism, environmentalist activism, Enbridge oil spills, government actions, and other company announcements. Announcements that concern the First Nations and Enbridge’s oil spills generate the most significant reactions. The three-day and five-day CAARs for the First Nations are –0.58% and –0.70% and are significant at the 0.10 level. Oil spill announcements generate significant three-day and five-day CAARs of –1.06%, and –1.24%, respectively. Similarly, environmentalist announcements generate significant CAARs of –0.42% (three-day) and –0.37% (five-day). Significant evidence also exists that announcements by the British Columbia government, which predominately reflect its opposition to the pipeline project proceeding, are also associated with a negative Enbridge stock price reaction. Pointedly, Enbridge announcements that promote or update the project's progress do not engender a significant market reaction, although the CAARs are negative. Taken together, these results show that Enbridge's stock price is significantly negatively impacted by activism from the First Nations and environmentalists, as well as its own oil spill announcements. This evidence supports the stakeholder activism hypothesis and provides no support for the economic insatiability hypothesis.

Insert Table 2 about here.

Table 3 reports the stock market reaction of companies generally associated with Enbridge, such as banks, suppliers, or Northern Gateway project participants to announcements regarding the First Nations activism, environmentalist activism, Enbridge oil spills, government actions, and Enbridge project announcements. None of these CAAR results exhibit significance. Thus, there is no impact on Enbridge's business partners' stock prices attributable to either positive or adverse announcements about Enbridge. Apparently, market participants are sufficiently perceptive and are able to disassociate Enbridge's issues from the association or responsibility of its trading partners.

Insert Table 3 about here.

C. Cross-Sectional Regression Analysis

The results of regressing the three-day CAARs for Enbridge stock price reaction to announcements regarding the First Nations and environmental activism, Enbridge oil spills, and government and company announcements on firm-analyst and performance variables are shown in Table 4. The regression model was previously stated in equation (1). The discussion on the three control variables included in the model was also mentioned. Prior to selecting the control variables employed, correlation analysis using Pearson correlation coefficients was conducted. In the interest of brevity, the full tabular results are not included; however, the significant correlations are summarized briefly. The significant positive correlations are ROE vs. ROA and SIZE vs. NUMEST. The significant negative correlations are ROE vs. NUMEST, SPREAD vs. TOBQ, and ROE vs. SIZE. In an effort to avoid potential multi-collinearity issues and to examine the sensitivity of the results to the model specification, five regression models are utilized. Model 1 is the complete model presented in equation (1). The NUMEST variable is dropped from Model 2. Models 3, 4, and 5, respectively, exclude SIZE, TOBQ, and ROE.

The SPREAD and STDEST parameter estimates are negative and significant in all five regression models. The consistency of these results shows that the information asymmetry findings are robust with regard to model specifications. These results support the stakeholder activism hypothesis because the significant negative parameter estimates for both Enbridge's bid–ask spread and the analyst estimate errors in predicting Enbridge earnings per share are consistent with greater information asymmetry. The ROE and TOBQ variables are significantly negatively related to Enbridge's price reaction in Models 1–3. In Models 1 and 2, the SIZE variable is negative and marginally significant. These results suggest that adverse changes in both ROE (profitability) and TOBQ (growth opportunities) are reflected in negative announcement period shareholder stock price reactions.

Insert Table 4 about here.

D. Enbridge's Annual Report Discussion of the Northern Gateway Project

The Appendix contains all of the verbiage associated with the discussion of the Northern Gateway project from Enbridge's 2013 Annual Report.[3] Including headings, introductory sentences, and others, the excerpt contains 1,660 words. Much of the discussion concerns the Joint Review Panel's findings, specifically 899 words. The only statement in which a financial cost is estimated is on page 64 and is as follows: "Expenditures to date, which relate primarily to the regulatory process, are approximately $0.4 billion, of which approximately half is being funded by potential shippers on Northern Gateway. *Given the many uncertainties surrounding Northern Gateway, including final ownership structure, the potential financial impact of the project cannot be determined at this time*" (emphasis added). Thus, no estimate of the financial impact of the project

[3] The last paragraph of the Appendix also provides the only mention of the Northern Gateway project in Enbridge's 2013 SEC-filed 10-K report. This statement consists of 138 words. Nowhere does it describe any profits, costs, or risks specific to the project.

on the company is provided in the annual report. One might observe that this is a clear illustration of information asymmetry. Does Enbridge want shareholders to believe they did not engage in extensive financial analysis of the project's cost and benefits? Clearly, one would expect them to have generated all types of pro-forma analysis of the project's profitability under various scenarios, including environmental and Indigenous peoples' activism protesting the project. Apparently, Enbridge does not feel the need, and obviously is not required, to provide relevant estimated financial data for shareholders and other stakeholders that reveal the Northern Gateway project's expected costs, benefits, and impact on future firm performance.

Page 63 references Enbridge's assessment of the potential risks of the project. The following statement reflects the increased costs and risks attributable to environmental and geographic situations. "A detailed estimate based on full engineering analysis of the pipeline route and terminal location is currently being prepared. The detailed estimate will reflect a larger proportion of high cost terrain, longer tunneling requirements and more extensive terminal site rock excavation than provided for in the preliminary estimate, which is expected to result in a significant increase in the cost estimate. The revised estimate is anticipated to be completed in the first quarter of 2014."

Evidence of risk attributable to Indigenous peoples' rights and environmentalists is also presented on page 63. "Five applications for judicial review have been filed with the Federal Court and the Federal Court of Appeal; three from Aboriginal groups and two from environmental groups. The applications seek to set aside the findings of the JRP and prohibit the Federal Government from taking any action to enable the project to proceed."

The strategic and commercial risks stated on page 111 are as follows: "Public opinion may be influenced by media attention directed to development projects such as Northern Gateway. Potential impacts of a negative public opinion may include loss of business, legal action, increased regulatory oversight and costs. Reputation risk often arises as a consequence of some other risk event, such as in connection with operational, regulatory or legal risks. Therefore, reputation risk cannot be managed in isolation from other risks."

Aside from this discussion of risks, no costs or benefits are assigned or developed in either Enbridge's 2013 Annual Report or the SEC 10-K filing for the year ending December 31, 2013. Then, these statements clearly do not engender any type of increased transparency that investors can translate into the impact of the Northern Gateway project on the firm's bottom line. Collectively, this evidence fully supports the stakeholder activism hypothesis and is in complete agreement with the evidence developed previously that supports this same hypothesis.

5. Summary and Conclusions

Enbridge's proposed Northern Gateway project serves as an ideal example of a major corporate investment halted by stakeholder activism. Many of the objections raised by project stakeholders stemmed from Enbridge being unclear, nonresponsive, or improperly communicative about the project with the interested parties. This lack of transparency, or information asymmetry, was clearly evident to Enbridge's shareholders, the First Nations groups and environmental organizations, and others who also perceived the potential risks. This concern was evidenced by the outcry from all of these parties calling for the project's abandonment.

Our study focuses on this disconnection of Enbridge's projections of profitability and project risk from the reality and uncertainties of the project's completion and its impact on the environment. We examine three measures representing information asymmetry, specifically Enbridge's bid–ask stock price spread, the number of analysts following Enbridge, and the standard deviation of these analysts' estimates of Enbridge's earnings per share. Our mean–median tests provide consistent evidence that Enbridge is viewed by the market as being less transparent in its business operations compared with a sample of 25 peer firms. Using market reaction analysis, we find that Enbridge's stock price reacts significantly negatively to announcements about First Nations activism as well as environmental activism. Additionally, we find that stakeholders are responsive to announcements by the British Columbia government that do not support the project going forward. Our cross-sectional regression analysis provides further significant support for all of the previous information asymmetry results.

This study finds that the potential violation of indigenous rights and environmental concerns for geological subsystems in Canada have significant economic consequences. The results show that the market is paying attention to the First Nations and the environmental activism that highlights indigenous rights violations and environmental concerns. Specifically, the market reacts negatively to these First Nations and environmental announcements. Additionally, the market is paying attention to announcements made about the Province of BC's concerns about the Northern Gateway and reacts negatively. Importantly, no significant reaction to Enbridge announcements about anything shows that the market discounts these announcements about the Northern Gateway project. Therefore, most company news is already anticipated and factored into the valuation of the company. The market is aware of who holds the key to the Northern Gateway proceeding, and it is not the federal government or the company. It is the First Nations and the other stakeholders, the Enbridge stockholders, and the

Province of BC.

The conclusions that can be drawn from this are as follows: 1) There are economic consequences associated with violating Indigenous rights and environmental concerns; 2) Investors are concerned with Indigenous rights violations and projects that threaten the environment; 3) Indigenous rights' violation risk and environmental risk, particularly oil spill risk as it relates to the impact on Indigenous peoples, are material and must be disclosed; and, 4) Businesses and governments must engage the First Nations as major partners who have the right to free, prior, and informed consent.

As a final point, a contention cited previously in this paper is that firms are not required by the regulatory bodies to provide adequate details in their corporate reports. Given the previous analysis of Enbridge, clearer accounting statements are necessary. Adequate detail would enable both shareholders and stakeholders to assess appropriately the benefits, costs, and risks associated with a firm's potential investment projects. Assuming that Enbridge is meeting the minimum requirement of the IASB standards, we have clearly shown that its statements referring to the Northern Gateway disclose nothing of value to any stakeholder. Thus, accounting standards are shown to be sorely lacking in appropriate disclosure requirements and must be expanded to disclose potential investment profits, costs, and risks.

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Table 1: Mean-Median Comparison between Enbridge and a Matching Industry Group

SPREAD is the bid–ask spread measured as ((Ask Price–Bid Price)/((Bid Price+Ask Price)/2)), NUMEST is the average number of analysts following the company, STDEST is the standard deviation of analyst forecasts, ROE is return on equity measured as net income divided by market value of equity, ROA is return on assets measured as net income divided by total assets, TOBQ is Tobin's q, ASSETS is average total assets, and MVEQ is market value of equity. Industry average was calculated on the basis of 25 companies matched to Enbridge Inc. using four- and three-digit SIC codes and total assets from the COMPUSTAT database. Data for NUMEST and STDEST were obtained from the IBES database for the month preceding the announcement date. ***, **, and * designate significance at the 1%, 5%, and 10% levels. Difference represents the difference in the mean and the median of each variable between Enbridge Inc. and its peers. We utilize the Wilcoxon test to test for the difference between the medians, and the t-statistics to test for the difference between the means of each variable.

	Panel 1: Matching Firms Average				**Panel 2: Enbridge Inc.**				**Difference (2–1)**	
Variable	**N**	**Mean**	**Median**	**Std.**	**N**	**Mean**	**Median**	**Std.**	**Mean**	**Median**
SPREAD	828	0.024	0.006	0.029	828	0.102	0.112	0.051	0.078***	0.106***
NUMEST	828	13.96	14.000	1.284	828	12.56	13.235	1.173	–1.399*	–0.765
STDEST	828	0.029	0.020	0.019	828	0.162	0.134	0.056	0.133***	0.114***
ROE	828	0.093	0.068	0.046	828	0.089	0.075	0.023	–0.004	0.007
ROA	828	0.054	0.015	0.129	828	0.025	0.021	0.005	–0.029***	0.006
TOBQ	828	3.060	3.073	0.278	828	1.808	1.721	0.257	–1.252**	–1.352**
ASSETS	828	422.6	47172	11835	828	41621	45237	4915.6	–676.08	–1934.2**
MVEQ	828	3053.6	34634	7810.5	828	19817	20843.1	2039.1	–10714**	–13791.8**

Table 2: Market Reaction to Announcements about the Northern Gateway Project Pipeline Categorized by Stakeholders Affected

Cumulative average abnormal return (*CAAR*) from the Fama and French (1993) three-factor model over the period of the three-day (t–1 to t+1) (Panel A) and five-day (t–2 to t+2) (Panel B) window periods. Announcements related to the Northern Gateway Project were categorized on the basis of the relevant stakeholder group with a vested interest in the project or the group that might be most impacted. First Nations includes announcements related to First Nations activism and their opposition on the grounds of human right violations. 2. Environment incorporates announcements that reflect the Northern Gateway Project's environmental risk and potential damage. 3. Oil Spill represents announcements of oil spills by Enbridge and their implications for the likelihood of project success or failure. 4. Gov. Local includes announcements made by the Local Government in British Columbia, which reflects their opposition and the implications of the project on their communities. 5. Gov. B.C. includes announcements made by the provincial government of British Columbia, which mainly reflect their opposition and conditions of the project to proceed through the Province of British Columbia. 6. Gov. Federal represents announcements made by the Canadian Federal Government mainly to promote the economic benefits of the project and the likelihood of its success. 7. JRP reflects announcements made by the Joint Review Panel, which reflect their mandate and the progress and obstacles associated with undertaking the project. 8. Enbridge Inc. includes announcements made by Enbridge Inc. to promote the project and its values and to provide information that reflects the progress of the project. POS: NEG is the number of positive and negative abnormal returns in the event window. CDA is the portfolio time series test statistic. RZ is the rank z-test statistic and JNZ is the Jackknife z-test statistic to test for significance of the AAR and CAAR. ***, **, and * designate significance at the 1%, 5%, and 10% levels, respectively, using a two-tail test.

Sample		Panel A: Cumulative Abnormal Returns over the Period t–1 to t+1					Panel B: Cumulative Abnormal Returns over the Period t–2 to t+2				
Sub-Sample	N	CAAR	POS: NEG	CDA	RZ	JNZ	MAR	POS: NEG	CDA	RZ	JNZ
1. First Nations	207	–0.580	81:126***	–5.037***	–3.368***	–5.235***	–0.70	84:123**	–4.667***	–3.215**	–4.757***
2. Environment	137	–0.420	63:74*	–3.039**	–2.000*	–3.383***	–0.37	62:76*	–2.049**	–1.234*	–2.259**
3. Oil Spill	49	–1.060	14:35***	–4.437***	–3.929***	–4.197***	–1.24	16:33**	–4.011***	–3.462***	–4.229***
4. Gov. Local	23	–0.450	7:16*	–1.239	–0.611	–2.476*	–0.57	5:18**	–1.228	–0.752	–1.817*
5. Gov. B.C.	51	–0.480	25:26	–1.887*	–1.628	–2.204*	–0.77	21:30*	–2.354*	–2.032*	–2.179**
6. Gov. Federal	46	0.320	30:16**	1.377	1.083	1.462	–0.02	27:19	–0.073	–0.249	–0.013
7. JRP	252	–0.110	126:126	–1.201	0.250	–0.050	–0.10	130:122	–0.870	0.082	–0.930
8. Enbridge Co.	61	–0.280	27:34	–1.301	–0.452	–0.626	–0.30	27:34	–1.092	–1.018	–1.179
Aggregate	826	–0.383	373:453***	–2.439**	–1.819**	–2.089**	–0.509	372:454***	–2.946***	–1.876**	–2.589***

Table 3: Market Reaction to Companies associated with the Enbridge Project Pipeline as Perceived by Different Stakeholders

Cumulative average abnormal return (*CAAR*) from the Fama and French (1993) three-factor model during the three-day (t–1 to t+1) (Panel A) and five-day (t–2 to t+2) (Panel B) window periods. Announcements related to the Northern Gateway Project were categorized using the relevant stakeholder group with a vested interest in the project or the group that might be most impacted. First Nations includes announcements related to the First Nations activism and their opposition on the grounds of human right violations. 2. Environment incorporates announcements reflect the Northern Gateway Project's environmental risk and potential damage. 3. Oil Spill represents announcements of oil spills by Enbridge and their implications for the likelihood of project success or failure. 4. Gov. Local includes announcements made by the local government in British Columbia that reflect their opposition and the implications of the project on their communities. 5. Gov. B.C. includes announcements made by the Provincial Government of British Columbia that mainly reflect their opposition and conditions if the project is to proceed through the Province of British Columbia. 6. Gov. Federal represents announcements made by the Canadian Federal Government mainly to promote the economic benefits of the project and the likelihood of its success. 7. JRP reflects announcements made by the Joint Review Panel that reflect their mandate and the progress and obstacles associated with undertaking the project. 8. Enbridge Inc. includes announcements made by Enbridge Inc. to promote the project and its values and to provide information that reflects the progress of the project. POS: NEG is the number of positive and negative abnormal returns in the event window. CDA is the portfolio time series test statistic. RZ is the rank z-test statistic and JNZ is the Jackknife z-test statistic to test for significance of the AAR and CAAR. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively, using a two-tail test.

Sample		Panel A: Cumulative Abnormal Returns over the Period t–1 to t+1					Panel B: Cumulative Abnormal Returns over the Period t–2 to t+2				
Sub-Sample	N	CAR	POS: NEG	CDA	RZ	JNZ	MAR	POS: NEG	CDA	RZ	JNZ
1. First Nations	8474	–0.100	4003:4471	1.137	–1.375	–5.876	–0.160	3931:4543	1.354	–1.996	–7.977
2. Environment	6526	–0.050	3232:3294	–0.570	–0.768	–0.850	–0.070	3172:3355	–0.639	–0.830	–3.053
3. Oil Spill	1933	–0.210	887:1046	–2.519	–2.688	–2.846	–0.240	864:1069	–1.847	–2.547	–2.912
4. Gov. Local	1061	–0.110	545:516	–0.432	–0.311	–1.635	–0.140	516:545	–0.523	–0.311	–1.731
5. Gov. B.C.	1863	0.210	920:943	1.570	0.517	0.584	0.270	938:925	1.561	0.854	0.244
6. Gov. Federal	2288	–0.360	1013:1275	–2.825	–2.705	–7.103	–0.320	1051:1237	–1.954	–1.887	–5.390
7. JRP	3963	0.050	1962:2001	0.518	0.310	0.061	0.010	1897:2069	0.061	–0.436	–2.136
8. Enbridge Co.	2905	–0.340	1343:1562	–2.582	–2.350	–5.452	–0.430	1297:1608	–2.509	–2.970	-7.106

Table 4: Cross-Sectional Regression Analysis

$$CAAR_{t-1,t+1} = \beta_0 + \beta_1*(SPREAD) + \beta_2*(NUMEST) + \beta_3*(STDEST) + \beta_4*(ROE) + \beta_5*(SIZE) + \beta_6*(TOBQ) + \varepsilon.$$

Results from estimating a cross-sectional regression model to explain the determinants of the CAAR where the dependent variable is the three-day (t–1 through t+1) announcement period CAAR. The independent variables are: SPREAD is the bid–ask spread measured as ((Ask Price–Bid Price)/((Bid Price+Ask Price)/2)). NUMEST is the average number of analysts following Enbridge. STDEST is the standard deviation of analyst forecasts. ROE is return on equity measured as net income divided by market value of equity. TOBQ is Tobin's q. Data for the number of analysts following the company NUMEST and the standard deviation of analyst forecasts STDEST were obtained from the IBES database for the month preceding the announcement date. P. Est. is the parameter estimate. T-Value is the t-test statistic from testing for parameter estimate significance. ***, **, and * designate the level of significance at the 1%, 5%, and 10% levels.

		Model 1		Model 2		Model 3		Model 4		Model 5	
Variable	Expected Sign	P. Est.	T-Value	P. Est.	T-Value	P. Est.	T-Value	P. Est.	T-Value	P. Est.	T-Value
Intercept	POS/NEG	0.152	2.400**	0.140	2.230**	0.049	2.410**	0.014	0.360	–0.035	–1.510
SPREAD	NEG	–0.168	–3.900***	–0.161	–3.750***	–0.128	–3.540***	–0.063	–3.160***	–0.070	–2.320**
STDEST	NEG	–0.069	–2.020**	–0.072	–2.110**	–0.078	–2.310**	–0.073	–2.130**	–0.066	–1.920*
NUMEST	POS	–0.001	–1.280	na	na	–0.001	–1.410	–0.000	–0.710	–0.000	–0.410
ROE	POS/NEG	–0.128	–3.170***	–0.113	–2.930***	–0.071	–3.080***	–0.039	–1.600	na	na
SIZE	POS/NEG	–0.008	–1.710*	–0.008	–1.810*	na	na	–0.001	–0.120	0.004	1.520
TOBQ	POS/NEG	–0.015	–2.760***	–0.014	–2.540**	–0.010	–2.160**	na	na	–0.001	–0.320
F-Value		4.320***		4.850***		4.590***		3.640***		3.140***	
Adj. R. Sq.		0.0235		0.0228		0.0212		0.0157		0.0128	
N		828		828		828		828		828	

Appendix

Enbridge Annual Report 2013: All references to the Northern Gateway project

Western Access
Our proposed Northern Gateway Project would transport 525,000 bpd of oil from Alberta for export to refineries in the Asia-Pacific region and U.S. west coast. The project involves a crude oil export pipeline and condensate import pipeline between Bruderheim, Alberta and a proposed new marine terminal in Kitimat, British Columbia. In December 2013, a federal Joint Review Panel recommended the federal government approve the project, subject to 209 conditions. The Government of Canada is expected to render its final decision on the Northern Gateway project by June 2014. (pg. 10)

In December 2013, following extensive review, the federal Joint Review Panel (JRP) recommended approval of the Northern Gateway Project to the Canadian federal government, subject to 209 conditions. The JRP concluded Northern Gateway is in the Canadian public interest and that it can be built and operated safely without significant adverse effects. While regulatory approval is an important element, it's just one step. We know more work needs to be done and we are focused on engaging Aboriginal groups and other stakeholders to listen and address concerns. The government is expected to make a final decision by June 2014. (pg. 29)

Growth Projects – Other Projects Under Development
The following projects have been announced by the Company, but have not yet met Enbridge's criteria to be classified as commercially secured. The Company also has significant additional attractive projects under development which have not yet progressed to the point of public announcement. In its long-term funding plans, the Company makes full provision for all commercially secured projects and makes provision for projects under development based on an assessment of the aggregate securement success anticipated. Actual securement success achieved could exceed or fall short of the anticipated level. (pg. 62)

Liquids Pipelines
Northern Gateway Project
Northern Gateway involves constructing a twin 1,177-kilometre (731-mile) pipeline system from near Edmonton, Alberta to a new marine terminal in Kitimat, British Columbia. One pipeline would transport crude oil for export from the Edmonton area to Kitimat and is proposed to be a 36-inch diameter line with an initial capacity of 525,000 bpd. The other pipeline would be used to transport imported condensate from Kitimat to the Edmonton area and is proposed to be a 20-inch diameter line with an initial capacity of193,000 bpd. In 2010, Northern Gateway submitted an application to the NEB and the Joint Review Panel (JRP) was established to review the proposed project, pursuant to the NEB Act and the Canadian Environmental Assessment Act. The JRP had a broad mandate to assess the potential environmental effects of the project and to determine if development of Northern Gateway was in the public interest. On December 19, 2013, the JRP issued its report on Northern Gateway. The report found that the petroleum industry is a significant driver of the Canadian economy and an important contributor to the Canadian standard of living. The JRP found that the potential economic effects of Northern Gateway on local, regional, and national economics would be positive and would likely be significant. The JRP is also of the view that the Company's commitments break new ground by providing an unprecedented level of long-term economic, environmental, and social benefits to Aboriginal groups. It noted that the benefits of Northern Gateway outweigh its burdens and that "Canadians would be better off with the Enbridge Northern Gateway Project than without it." The JRP found that Northern Gateway provided appropriate and effective opportunities for the public and potentially affected parties to learn about the project and to provide their views and concerns to the Company. The JRP was satisfied that Northern Gateway considered, and was responsive to, the input it received regarding the design, construction, and operation of the project. The JRP found Northern Gateway applied a careful and precautionary approach to its environmental assessment and that Northern Gateway had presented a level of engineering design information that met, or exceeded, regulatory requirements for a thorough and comprehensive review in terms of whether or not it can construct and operate the project in a safe and responsible manner that protects people and the environment. The JRP found that Northern Gateway followed good engineering practice in determining a route that avoids or minimizes exposure to geo-hazards, had taken all reasonable steps to design a project that would minimize risks of project malfunctions and accidents due to naturally occurring events and that mandatory and voluntary measures outlined by the Company would reduce the potential for human error to the greatest extent possible. The JRP also referenced the conclusions of the TERMPOL committee and the evidence of various expert witnesses appearing on behalf of Northern Gateway and the Government of Canada in its assessment of the safety of marine transport and concluded that shipping along the north coast of British Columbia could be accomplished safely the vast majority of the time even in the absence of many of the mitigation measures that would be in place for Northern Gateway. These additional mitigation measures would include reduced vessel speeds, escort tugs, redundant navigational systems and avoiding congestion in the narrower parts of the shipping channels. The JRP noted Northern Gateway's commitments represent a substantial increase in spill response capabilities beyond those required by existing legislation and currently existing on the west coast of British Columbia, that they are based on international best practice and continual advances in technology and spill response planning. The JRP included an appendix with 209 conditions that the JRP recommended be included in any certificate that was issued. The JRP recommended to the Governor in Council that certificates of public convenience and necessity for the oil and condensate pipelines, incorporating the terms and conditions in their report, be issued to Northern Gateway pursuant to Part III of the NEB Act. The Government of Canada will now consult with Aboriginal groups on the JRP report and its recommendations prior to making a decision on whether to direct the NEB to issue the certificates for the pipelines. Of the 45 Aboriginal groups eligible to participate as equity owners, 26 have signed up to do so. The Governor in Council's decision is expected in June 2014. The cost estimate included in the Northern Gateway filing with the JRP reflects a preliminary estimate prepared in 2004 and escalated to 2010. A detailed estimate based on full engineering analysis of the pipeline route and terminal location is currently being prepared. The detailed estimate will reflect a larger proportion

of high cost terrain, longer tunneling requirements and more extensive terminal site rock excavation than provided for in the preliminary estimate, which is expected to result in a significant increase in the cost estimate. The revised estimate is anticipated to be completed in the first quarter of 2014.

Five applications for judicial review have been filed with the Federal Court and the Federal Court of Appeal; three from Aboriginal groups and two from environmental groups. The applications seek to set aside the findings of the JRP and prohibit the Federal Government from taking any action to enable the project to proceed. (pg. 63)

Subject to continued commercial support, regulatory and other approvals and adequately addressing landowner and local community concerns (including those of Aboriginal communities), the Company currently estimates that Northern Gateway could be in service in 2018 at the earliest. The timing and outcome of judicial reviews could also impact the start of construction or other project activities, which may lead to a delay in the start of operations beyond the current forecast. Expenditures to date, which relate primarily to the regulatory process, are approximately $0.4 billion, of which approximately half is being funded by potential shippers on Northern Gateway. Given the many uncertainties surrounding Northern Gateway, including final ownership structure, the potential financial impact of the project cannot be determined at this time. The JRP posts public filings related to Northern Gateway on its website at *gatewaypanel.review-examen.gc.ca/clf-nsi/hm-eng.html* and Northern Gateway also maintains a website at *northerngateway.ca* where the full regulatory application submitted to the NEB, the 2010 Enbridge Northern Gateway Community Social Responsibility Report and the December 19, 2013 Report of the JRP on the Northern Gateway Application are available. ***None of the information contained on, or connected to, the JRPwebsite or the NorthernGateway website is incorporated in or otherwise part of this MD&A***. (pg. 64)

General Business Risks

Strategic and Commercial Risks

Public Opinion

Public opinion or reputation risk is the risk of negative impacts on the Company's business, operations or financial condition resulting from changes in the Company's reputation with stakeholders, special interest groups, political leadership, the media or other entities. Public opinion may be influenced by media attention directed to development projects such as Northern Gateway. Potential impacts of a negative public opinion may include loss of business, legal action, increased regulatory oversight and costs. Reputation risk often arises as a consequence of some other risk event, such as in connection with operational, regulatory or legal risks. Therefore, reputation risk cannot be managed in isolation from other risks. The Company manages reputation risk by:

• having health, safety and environment management systems in place, as well as policies, programs and practices for conducting safe and environmentally sound operations with an emphasis on the prevention of any incidents;

• having formal risk management policies, procedures and systems in place to identify, assess and mitigate risks to the Company; (pg. 110) operating to the highest ethical standards, with integrity, honesty and transparency, and maintaining positive relationships with customers, investors, employees, partners, regulators and other stakeholders;

• having strong corporate governance practices, including a Statement on Business Conduct, which requires all employees to certify their compliance with Company policy on an annual basis, and whistleblower procedures, which allow employees to report suspected ethical concerns on a confidential and anonymous basis; and

• pursuing socially responsible operations as a longer term corporate strategy (implemented through the Company's CSR Policy, Climate Change Policy, Aboriginal and Native American Policy and the Neutral Footprint Initiative). (pg. 111)

Enbridge Energy Partners – SEC 10-K Form Fiscal Year-end: December 31, 2013
All References to the Northern Gateway Project

Enbridge has filed an application with the NEB for construction of the Northern Gateway Pipeline, which includes both a condensate import pipeline and a petroleum export pipeline. The condensate line would transport imported diluent from Kitimat, British Columbia to the Edmonton, Alberta area. The petroleum export line would transport crude oil from the Edmonton area to Kitimat and would compete with our Lakehead system for production from the Alberta Oil Sands. On December 19, 2013, the National Energy Board's Joint Review Panel released a recommendation to the Canadian Federal Government to approve the project, subject to certain conditions. The Federal Government will render its final decision by July 2014. Given the substantial growth in Western Canadian crude oil supply, this pipeline will provide another market option for Canadian crude oil, an important consideration for Canadian crude oil producers. (pg. 12)