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DU MONTRÉAL MÉTROPOLITAIN
BOARD OF TRADE OF METROPOLITAN MONTREAL

Brief of the Board of Trade of Metropolitan Montreal submitted to the Quebec National Assembly Commission on Agriculture, Fisheries, Energy and Natural Resources related to special consultations on the acceptability for Quebec of the project proposed by Enbridge Pipelines Inc. to reverse the flow of the Line 9B pipeline between North Westover and Montréal towards the east

December 4, 2013

Preamble

The Board of Trade of Metropolitan Montreal has approximately 7,000 members. Its mission is to represent the interests of the business community of Greater Montréal and to provide individuals, merchants, and local businesses of all sizes with a variety of specialized services to help them achieve their full potential in terms of innovation, productivity, and competitiveness. The Board of Trade is Quebec's leading private economic development organization.

Context

In response to intentions expressed by Enbridge to reverse the flow of its Line 9B pipeline between North Westover (Ontario) and Montréal, the Quebec government decided to hold public consultations to solicit the comments and advice of several stakeholders. As stated in the consultation document released by the government:

> "The goal of this consultation is to give interested persons and organizations a chance to present their comments and recommendations concerning the application, in the context of this initiative, of the three principles adopted by the government for the management of the oil industry: personal safety, protection of the environment and the resulting economic benefits for all Quebecers."

Subsequent to an invitation from the Quebec National Assembly Commission on Agriculture, Fisheries, Energy and Natural Resources, the Board of Trade of Metropolitan Montreal began its study of the project. This brief, submitted to the Commission by the President and CEO of the Board of Trade, presents the results of this study.

Introduction

The development of natural resources and energy

The Board of Trade has studied the economic benefits for the Montréal metropolitan area of numerous Quebec natural resource development projects. In April 2012, the Board of Trade published a study entitled *Natural resources: leverage for the city's growth.* This study showed considerable economic benefits flowing from this sector over the next 25 years. During this period, the mining, energy and forestry industries will help to create or maintain close to 15,000 jobs and will generate economic benefits evaluated at $52 billion[1].

The Board of Trade's study also brought to light two realities that are often overlooked when natural resources and energy are discussed. These realities apply specifically to the reversal of the flow of Enbridge's Line 9B pipeline.

- Even though the metropolitan area has been steadfast in its shift towards a knowledge-based economy, we have demonstrated that knowledge-based and natural resource economies are very often interdependent, and certainly not contradictory. In fact, major projects in the natural resource sector require the involvement of engineering firms, professional services, suppliers, users and highly-qualified manpower; all products of the metropolitan area's dynamic knowledge-based economy.

- The corollary of this interdependence between the two types of economies is the link between the economic development of the resource regions and that of the metropolitan area. Greater Montréal derives considerable benefit from the large energy-producing sites, even if they are far away, because of our head offices, supplier networks, educational institutions, etc. The development of resource regions goes hand in hand with that of the metropolitan area.

Today's petrochemical industry is based on state-of-the-art processes that require considerable support from the knowledge-based economy, particularly in the areas of university research, engineering and clean technologies. Even though oil is produced mainly in the west, all of Canada benefits from the development of this national resource.

As pointed out in our brief submitted during the public consultation on energy issues in Quebec in September 2013, a carefully planned energy policy could play an important role in the development of the metropolitan area[2].

[1] Board of Trade of Metropolitan Montreal, *Natural resources: leverage for the city's growth,* Montréal, April 2012.
[2] Board of Trade of Metropolitan Montreal, *Recommendations of the Board of Trade of Metropolitan Montreal as part of consultations of the Commission sur les enjeux énergétiques du Québec*, Montréal, September 2013.

In order for this energy policy to have a significant leverage effect on our economic base, we proposed that it should respect the following three important principles:

- The policy must be practical. Although we may adopt ambitious objectives concerning renewable energy and energy efficiency, we cannot escape certain realities, such as the necessity of using hydrocarbons for many years to come. In fact, a well-integrated energy sector is necessary to secure supply at competitive rates for Quebec enterprises using fossil fuels as input.

- In order to get the full leverage effect of this policy, we need to diversify our energy portfolio. Diversification will allow us to offer consumers a larger range of options and will contribute to our energy independence.

- Finally, the energy policy must be in line with other key government policies, such as its industrial policy or the reduction of greenhouse gases.

Respecting these principles would allow Quebec to consolidate its privileged position in the energy sector while providing significant opportunities for economic development. Thanks to its many assets and its strong potential for innovation, Greater Montréal will play a leading role in this development, and a supply of Canadian oil will be a major factor in ensuring our competitiveness.

Reasons for reversing the flow of Line 9B

Enbridge's pipeline was built in 1976 to supply Ontario and Quebec with western Canadian oil. In 1999, following price changes on the international market, the flow of the pipeline was reversed in order to take advantage of the relatively low cost of foreign oil. It is interesting to recall that the Quebec government of that period, led by Premier Lucien Bouchard, recommended that the flow of the pipeline should be able to be rapidly reversed once again if market conditions should change. In its wisdom, the government had foreseen our current situation and had even pointed out the possibility of an eventual reversal for the benefit of Quebec.

We now know that development of the western Canadian oil sands and the non-conventional hydrocarbon revolution in the U.S. have contributed over the years to significant change in the oil market. North American sources can now supply oil at a much lower price than overseas sources. In the current situation, Quebec refineries are unable to procure the lower priced oil available from our own country or from the U.S. As a result, we are creating a competitive disadvantage for our own refineries and for any company that uses oil products as input.

The basic message is clear: the pipeline reversal project under study is in the economic interest of Quebec since it will make it possible to strengthen the refining operations of the last two installations in Quebec by providing them with supply conditions that are comparable with other North American refineries. Numerous suppliers and users of this resource, both upstream and downstream in the value chain, will also benefit from this strengthening of refining operations, thereby ensuring the continuity of their activities and the many jobs that they provide.

This message is even more important when we examine the specific situation of Quebec's metropolis, Montréal. It is important to note that the majority of industries in the petrochemical sector are located in the east end of Montréal. Currently, the metropolitan area economy is struggling to fulfill its role as the engine of Quebec's economic growth. The decision to approve the reversal of flow of the pipeline would strengthen the competitive position of companies in the petrochemical industry and contribute to the preservation of thousands of well-paid jobs is this part of Greater Montréal.

1. An important economic contribution to Quebec and its metropolis

Macroeconomic, geopolitical and interprovincial impacts

In spite of efforts to improve energy efficiency, the global demand for energy will likely double between now and 2050 as a result of population growth, urbanization, economic growth and mobility needs[3]. Furthermore, the end of fossil energy is not imminent, especially considering the revolution in non-conventional hydrocarbons occurring in particular in the U.S.[4] Finally, even though Quebec remains one of the world's largest producers of hydroelectric energy, we still depend on fossil fuels for more than 50% of our energy needs, 39% of which comes from petroleum products[5].

Even if savings are possible and desirable thanks to various measures such as energy efficiency and the electrification of personal transportation, we need to accept certain facts. The transportation of merchandise, air travel and a number of industrial sectors cannot be electrified at this time or in the foreseeable future.

In short, we need to accept that Quebecers will continue to use fossil fuels for their transportation and heating needs. Furthermore, these fuels will continue to be used as input in the manufacture of all sorts of processed products by the petrochemical industry.

According to the most recent data, Quebec imported $3.7 billion in crude oil in 2012 on a total trade deficit of $20.8 billion. Given that oil will be necessary for many years to come, **a decrease in imports due to increased use of Canadian oil will have a significant impact on our balance of trade.**

The Brent crude classification of oil that is currently imported by Quebec comes from a variety of countries. Although the political stability of certain producing countries such as Norway and the U.K. is not a problem, this is not the case for North Africa and the Middle East. Whenever a conflict breaks out in these regions, we invariably experience an increase in the per barrel price of Brent. A supply coming from within Canada would have the advantage of offering **prices that are more competitive as well as more stable since this resource is based on the Western Canadian Select (WCS) standard.**

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[3] World Energy Council, *2013 World Energy Issues Monitor*, London, 2013.
[4] International Energy Agency, *World Energy Outlook 2012*, Paris, 2012.
[5] Government of Quebec, *From Greenhouse Gas Reduction to Quebec's Energy Self-Sufficiency*, Consultation Paper, Commission sur les enjeux énergétiques du Québec, 2013.

Finally, **a supply of Canadian oil would also support the development of a national resource, which would benefit all the provinces.** A recent study showed that development of Western Canada's oil resources generated economic spinoffs of $44 billion in 2012 and has help to support close to 420,000 jobs across the country[6]. Almost 55% of these spinoffs resulted from development of the oil sands. Even though these benefits are greater in the producing provinces, they are nevertheless significant and contribute to our collective wealth, e.g. via the federal equalization program. In fact, the study identified economic benefits for Quebec of close to one billion dollars in 2012, as well as 10,000 direct and indirect jobs supported by Western Canada's oil industry[7]. It is encouraging to note that the Quebec government announced in November 2012 the creation of a joint committee between Alberta and Quebec to study issues concerning the accessibility of petroleum resources.

In addition to these global positive benefits, the Enbridge Line 9B reversal project will have a considerable impact on Quebec's petrochemical industry and on the Montréal metropolitan area.

2. Impact on the competitiveness of Quebec's petrochemical industry and the Montréal metropolitan area

Impact on the competitiveness of refining activities

After having cornered 26% of Canada's refining industry in 1981, Quebec now only produces 12% of the industry's total capacity[8]. There are currently only two refineries remaining in Quebec: Valero in Lévis and Suncor in Montréal's east end. Since the first reversal of Enbridge's Line 9 pipeline, the supply of oil for these refineries has come mainly from overseas. This type of oil, Brent crude, is more expensive than Western Texas Intermediate (WTI) from the U.S., and even more expensive than WCS from Western Canada. From 2005 to 2012, WCS has had an average positive cost differential of 15% compared to Brent[9].

In order to reap the full benefit of this competitive advantage, there should be no restrictions imposed on the type of crude that flows through the 9B pipeline. The Suncor refinery recently announced that the reversal of the pipeline could lead to investments of $200 million in its Montréal East installations. These investments might not be made if restrictions are imposed on the type of crude.

The reduced cost of oil that would result from the Line 9B reversal would help strengthen refining activities by significantly improving the competitiveness of Quebec's last two refineries. It is important to note that these refineries do not operate in a vacuum but contribute to a value chain both upstream and downstream from their operations. The industries that make up this value chain will also profit from the improved competitiveness resulting from access to less expensive oil.

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[6] Fédération des chambres de commerce du Québec, *Retombées économiques de l'industrie pétrolière de l'Ouest canadien*, November 2013, p. 3.

[7] *Ibid.*

[8] Canadian Association of Petroleum Products, *Refinery Crude Oil Capacity – Canada 1981-2012*, http://membernet.capp.ca/SHB/Sheet.asp?SectionID=7&SheetID=250 (consulted on November 26, 2013).

[9] TD Economics, *Drilling Down on Crude Oil Price Differentials*, Observation, March 14, 2013.

Consolidation and development of the petrochemical industry

Close to 70% of the companies in Quebec's chemical and petrochemical sector are located in Greater Montréal. Over the last few years, this sector has seen a number of closures; in particular, the Shell refinery in 2012 (550 direct jobs lost and 3,500 indirect jobs affected) and the Pétromont installations in Varennes and in Montréal East in 2008 (300 direct jobs lost). Improved competitiveness is key to the survival of our refineries.

From a broader point of view, as stated in the government consultation document, the petroleum sector and its related industries employ 51,000 people in Quebec and contribute more than $8.8 billion to the GDP[10]. More specifically, the only refinery in Montréal East, Suncor, sustains a complex ecosystem of 48 petrochemical companies that employs 3,610 workers[11]. Unique in Canada, the polyester production chain made up of Suncor, ParaChem, CEPSA and Selenis would benefit from a less costly supply of oil, which would likely lead to increased productivity. **This clearly demonstrates that it is essential for the metropolitan area to be connected to this principal source of supply.**

In addition to those companies that are directly related to the petrochemical industry, reversal of Enbridge's 9B pipeline would help to secure numerous jobs in adjacent sectors that benefit from the presence of a dynamic manufacturing industry. For example, the engineering, construction and professional services sectors all benefit from the presence of the petrochemical industry in Greater Montréal. As a major player in the international transportation of merchandise, the Port of Montréal would also benefit from a recovery and consolidation of industrial activities in east end Montréal.

Without doubt, reversal of the Enbridge 9B pipeline will provide a huge boost to the economies of Canada, Quebec and Greater Montréal. That said, no project of this scope can proceed unless it applies best practises to the maintenance of oil transportation infrastructures and extremely rigorous spill response measures.

3. Social acceptability of the pipeline reversal project

Social acceptance of the project will depend directly on the transparency of the company. It needs to **reassure the population and public authorities about the condition of its infrastructure, the measures it intends to take to minimize environmental impact, and the effectiveness of its spill response measures.**

Environmental impact

Quebec has adopted ambitious objectives for the reduction of greenhouse gases (GHG). By 2020, the government intends to reduce GHG to 25% of the 1990 level. Though it is difficult to say whether future technological advances will allow us to reach this objective, we can already see that the petrochemical industry is implementing various measures to decrease its environmental footprint and that the government is offering incentives to encourage industry to redouble its efforts.

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[10] Gouvernement du Québec, *Inversion du flux de l'oléoduc 9B d'Enbridge*, 2013, p. 24. Editor's note: On page 39 of this document, a detailed breakdown of job losses following the closing of Quebec's refineries is presented.

[11] Jean-François Minardi, "The Economic Benefits of Pipeline Projects to Eastern Canada", *Economic Note*, Montreal Economic Institute, September 2013.

Between 2008 and 2010, the Canadian petrochemical industry's operating and capital expenses associated with environmental protection have risen from $3.3 billion to $4.5 billion[12]. In addition, Alberta will spend an estimated $6 billion over the next five years on the implementation of clean technologies. Even though there is no doubt that development of the oil sands has a significant impact on our GHG scorecard, we note that concrete measures have been taken to diminish this impact and that there have been considerable technological advances in this area, particularly in Quebec.

In fact, Quebec has the only clean technology industrial cluster in Canada, Écotech Québec. With its nine university-level academic institutions, Greater Montréal can count on a strong capacity for innovation thanks to their research and development. The opportunities for our companies that are innovating in the field of environmental technologies are considerable. For these reasons, Enbridge needs to play a leading role in this ecosystem by encouraging the development of these new technologies. **For example, Enbridge could set up a fund that would contribute to the development of innovative companies.**

Various advanced technologies have resulted in a significant improvement in air quality in Montréal East. The average 24-hour concentration of the worst air pollutants, as measured by the Ville de Montréal's air quality monitoring network, has greatly improved in the east end over the period between 2000 and 2012. This improvement cannot be attributed solely to the closing of certain pollution-emitting plants. It is also the result of the implementation of new emission-reducing technologies[13].

Furthermore, the implementation of the Quebec government's carbon market, which held its first credit auction on December 3, 2013, means that GHG emission ceilings will be imposed on all the major emitters. Above this ceiling, companies will need to purchase carbon credits, and the money raised will be paid into a green fund to be used to finance GHG emission reduction initiatives. Consequently, in addition to the industry's voluntary efforts to reduce its emissions using new technologies, it will also be contributing to the government's emission reduction efforts.

Emergency spill response measures

Over the last few years, the Canadian oil and pipeline industries have implemented various mechanisms aimed at responding more effectively to emergencies.

As Al Monaco, Enbridge's President and CEO, admitted in his speech to the Board of Trade on September 10, 2013, the tragic incident near Marshall, Michigan in 2010 was a huge lesson in humility for the company. As a result of this incident, the company has taken a number of steps to avoid a reoccurrence, in particular the implementation of an infrastructure inspection program and the construction of a new state-of-the-art control centre.

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[12] Statistics Canada, *Environmental Protection Expenditures in the Business Sector*, Ottawa, 2010.

[13] Ville de Montréal, Direction de l'environnement, Réseau de surveillance de la qualité de l'air, *Bilan 2012 de la qualité de l'air à Montréal*, 2012, http://ville.montreal.qc.ca/pls/portal/docs/PAGE/ENVIRO_FR/MEDIA/DOCUMENTS/bilan_rsqa_2012_fr_bq.pdf (consulted on November 26, 2013).

Recently, the Canadian Energy Pipeline Association mobilized its members, including Enbridge, to sign a mutual assistance agreement in case of emergencies. This agreement ensures that in the event of a spill, a member of the Association can more easily solicit the resources of the other members in order to respond rapidly to any emergency situation[14].

Enbridge needs to prove, in a completely transparent manner, that it has **a contingency fund and the necessary insurance to deal with a potential spill** that could have a major economic and environmental impact on the Montréal metropolitan area.

Conclusion and recommendations

In the light of this information, the Board of Trade recommends that the Quebec government should support the reversal of Enbridge's 9B pipeline.

However, Enbridge must demonstrate that it has the **insurance coverage and the funds necessary to deal with a spill**. It must also **reassure the population, in a completely transparent manner, about the state of its infrastructure and its long-term maintenance.** Since Quebec is a major player in the clean technology industry, **the company must take the necessary steps to become a contributor to this ecosystem.**

A lower cost supply of crude oil would have a significant positive impact on Quebec and the metropolitan area. The project would improve the balance of trade, increase the stability of supply and enhance business opportunities between the provinces.

The decreased cost of oil would have a beneficial effect not only on the refiners, but also on numerous companies both upstream and downstream in the petrochemical industry value chain. In the east end of Montréal, this industry is currently in a fragile state. Reversing the flow of Line 9B would breathe new life into our companies and secure thousands of jobs.

Questions of safety and the impact on the environment are legitimate and very important. Rigorous maintenance of the infrastructure and the application of flawless intervention measures in case of incidents are essential conditions for the implementation of this type of project. On these issues, Enbridge needs to be completely transparent in demonstrating methods it will put in place to respond appropriately to emergency situations and to the requirements of sustainable development.

The reversal of the flow of Line 9B complies with the three key principles that should govern the next energy policy. It is pragmatic, since fossil fuel energy will continue to be necessary for years to come. It favours diversification of the sources and supply of energy in order to meet the needs of current and future investors. Finally, the reversal is consistent with various government policies and strategies, particularly industrial policy and the policy for research and innovation.

As we have demonstrated throughout this brief, Greater Montréal, as the economic engine of Quebec, has considerable assets that allow it to play a leading role in the energy sector. We hope that the government will recognize the leadership role that is played by Greater Montréal and its business community.

[14] Canadian Energy Pipeline Association, *New Mutual Emergency Assistance Agreement for Canadian Pipeline Industry*, News release, November 20, 2013, http://www.cepa.com/new-mutual-emergency-assistance-agreement-for-canadian-pipeline-industry (Consulted on November 26, 2013).