

**Brief of the Board of Trade of Metropolitan Montreal submitted to the  
Environment Committee of the Communauté métropolitaine de Montréal  
concerning the TransCanada Energy East Pipeline project**



**October 5, 2015**

## Table of Contents

<b>Preamble</b> .....	<b>2</b>
<b>Context</b> .....	<b>3</b>
<b>Introduction – A city at the heart of development of natural and energy resources</b> .....	<b>4</b>
<b>1. The importance of relying on diversified energy subsectors</b> .....	<b>6</b>
<b>2. A major economic contribution to Greater Montréal and Quebec as a whole</b> .....	<b>7</b>
2.1 Impact on the competitiveness of Montréal's refining activities.....	7
2.2 Consolidation and development of the petrochemical industry.....	8
2.3 Macroeconomic and interprovincial trade impacts.....	8
2.4 Direct economic spinoffs of the project .....	9
<b>3. Social acceptability of the project</b> .....	<b>10</b>
3.1 Impact on the fight against climate change .....	10
3.2 Emergency spill response measures.....	11
<b>Conclusion and recommendations</b> .....	<b>12</b>

Preamble

The Board of Trade of Metropolitan Montreal has more than 7,000 members. Its mission is to be the voice of the Montréal business community and to promote the Greater Montréal's prosperity. It is engaged in key economic development sectors, advocating a philosophy of engagement, credibility, proactivity, collaboration and innovation. The Board of Trade also offers a range of specialized services to individuals and businesses of all sizes to support them in their growth here and internationally.

## **Context**

Over the next few months, the TransCanada Energy East Pipeline project will be the subject of three levels of public consultation, including this one:

- Environment Committee of the Communauté métropolitaine de Montréal (the CMM);
- Bureau d'audiences publiques sur l'environnement (the BAPE);
- National Energy Board (the NEB).

At its session last April 24, the Executive Committee of the Communauté métropolitaine de Montréal mandated the Environment Committee to hold a public consultation on the TransCanada Energy East Pipeline project with the goal of establishing a position representative of the citizens and organizations of Greater Montréal (Resolution CE15-105).

From September 15 to October 8, 2015, the CMM Environment Committee will hear individuals, groups and associations, as well as all the municipal representatives who wish to take a position on this project.

Following this consultation, a report will be produced and will serve to establish the position the CMM will table at the other two consultations, those of the BAPE and the NEB.

To promote the interests of the CMM business community, the Board of Trade of Metropolitan Montreal (the Board of Trade) has taken a position on 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 – A city at the heart of development of natural and energy resources**

Over the past few years, the Board of Trade has expressed its views repeatedly on issues and projects related to the development of natural and energy resources. It has published several studies and briefs which sought, in particular, to prove and shed light on the importance of this sector for Greater Montreal's economy. It is precisely this reason that justifies the Board of Trade's interest in the present consultations.

To present the business community's point of view to the CMM, the Board of Trade provides answers in this brief to some of the questions put forward by the Committee in the course of the consultations. It sheds light on several factors that should guide the position of the CMM's elected officers regarding the project, such as the effects on the supply of local petroleum products and their market, the economic impacts, the impacts on greenhouse gas emission targets and on the strategies for fighting climate change, and the measures that should be prescribed in matters of safety and financial compensation in case of a spill.

The approach preferred by the Board of Trade in its work regarding the natural resources and energy sector is based on several major principles. The Board of Trade also invites the Committee members to consider these principles in the context of the current consultations:

1. **Economic diversification** – Although the metropolitan area has resolutely chosen to move toward the knowledge economy, the industrial sectors, including refining and petrochemicals, occupy a substantial share of its economic fabric. It is important to ensure maintenance of the economic diversity of Greater Montréal, not only by protecting these sectors, but by giving them the necessary tools for their development.
2. **Interdependence** – The Board of Trade has demonstrated in its studies that, far from standing as contradictory choices, the knowledge and natural resources economies are quite often interdependent. Indeed, the energy sector's major projects require the involvement of engineering firms, professional services, suppliers, users and a highly skilled workforce, all products of a dynamic knowledge economy in the region. Greater Montréal largely benefits from the dynamism of big energy production sites, even if they are remote.

Moreover, today's petrochemical industry is based on state-of-the-art processes that require considerable support from the knowledge 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 natural resource.

3. **Diversification of energy subsectors** – The reliability and cost of the energy supply are one of the determining factors of the quality of the business environment. This obviously is based on the capacity to transport the required volumes at a competitive price and on the possibility of increasing volumes based on the progressive increase of demand.
4. **Pragmatism** – 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.

## **The objectives of the Energy East Pipeline project**

The Energy East Pipeline, 4600 kilometres long, would transport approximately 1.1 million barrels of crude oil per day from Alberta and Saskatchewan to the refineries of Eastern Canada. The project would also make it possible to transport oil to the refineries of Québec City, Montréal, Lévis, and Saint John, New Brunswick.

The phenomenon is now well known: the non-traditional hydrocarbon revolution in the United States has contributed, over the past few years, to a profound transformation of the global oil market. In the space of one year, the United States has become Quebec's leading supplier of crude oil. Within the next few years, some analysts predict these changes could again allow exporting of refined oil.

The competitiveness of refineries, and of the resulting value chain, mainly depends on their ability to supply themselves at competitive costs. This situation means that Quebec refineries must be able to rely on a multitude of sources of supply, without which we create a competitive disadvantage for our own refining facilities or for all the businesses that use petroleum products as inputs.

The basic message of this brief is that the Energy East project is in the economic interest of the CMM and Quebec, because in addition to improving the balance of trade, it would allow consolidation of the refining activities of the province's last two facilities, by diversifying their supply options, which would strengthen their ability to be more competitive. 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 if we examine Greater Montréal's economic fabric more closely. The majority of industries in the petrochemical sector are located in East End Montréal. The decision to approve the project, by consolidating the competitive position of companies in the petrochemical industry, will contribute to the preservation of thousands of well-paid jobs in this part of Greater Montréal.

## **1. The importance of relying on diversified energy subsectors**

The reliability and cost of the energy supply is one of the determining factors of the quality of the business environment for companies and the economic performance of the Montréal metropolitan area. This is true for the supply of petroleum products, natural gas and electricity. This reliability obviously is based on the capacity to transport the required volumes at a competitive price in normal periods and in peak periods, and on the possibility of increasing volumes based on the progressive increase of demand.

This is an especially important factor for certain wealth-creating economic sectors. According to the International Energy Agency, highly energy-intensive sectors such as the petrochemical industry generate 20% of global industrial value added. Moreover, the recovery of the manufacturing and chemical sectors currently observed in the United States is strongly linked to falling energy prices, for all forms of energy combined. To be competitive and able to integrate into the new North American industrial dynamics, local businesses must be able to count on the same advantage.

### **Electricity**

The main issues for Greater Montréal related to the electricity supply were resolved with the Government's announcement last spring of the decision to go ahead with construction of the 735 kV Chamouchouane—Bout-de-l'Île line, from Saguenay—Lac-Saint-Jean to Montréal. This new infrastructure will ensure the reliability of the grid and guarantee the power supply of East End Montréal.

### **Natural gas**

The business community's primary concern in the Energy East context was the project's impact on Quebec's natural gas supply and the price of this resource for consumers (individual, institutional and business). At the Board of Trade's podium in fall 2014, Sophie Brochu, President and Chief Executive Officer of Gaz Métro, publicly announced these risks related to the TransCanada projects.

The agreement announced last August 24 between TransCanada and the leading natural gas distributors, including Gaz Métro, put an end to these concerns. As proposed by the Régie de l'énergie, TransCanada last winter reissued a request for proposals to base its project on an assessment of the tangible and concrete needs, reflecting the community's real needs.

Thanks to this agreement, we now have the assurance that Quebec's natural gas needs could be satisfied at a competitive cost. Thus, contrary to the initial fears, natural gas customers would not finance the construction of Energy East with rate hikes. The agreement even provides that TransCanada would have additional capacity to respond to an eventual growth of demand. Moreover, in case of an additional increase in demand, the company undertook to build new facilities to respond to it within two years.

In short, given that Greater Montréal's supply of electricity and natural gas is now assured, the Board of Trade considers that increased access to Western Canada's oil would be beneficial to the economy of Greater Montréal and Quebec. We will now present the reasons why.

## 2. A major economic contribution to Greater Montréal and Quebec as a whole

### 2.1 Impact on the competitiveness of Montréal's refining activities

After having cornered 26% of Canada's refining industry in 1981, Quebec now only produces 12% of the industry's total capacity<sup>1</sup>. There are currently only two refineries remaining in Quebec: Valero and Suncor. These two refineries occupy an especially important place in the industrial fabric of East End Montréal, since the Suncor refinery is the last one located in the CMM's territory. Valero's Canadian head office is located in Montréal and the company has an oil terminal in Montréal-Est, into which it recently injected over \$150 million.

The price of crude is by far the most determining factor for the refineries' competitiveness, because it represents approximately 95% of their costs<sup>2</sup>. This is a highly competitive market and six refineries have already closed their doors in the North American Northeast since 2008, including the Shell refinery in Montréal in 2010 (550 direct jobs lost and 3500 indirect jobs affected).

Access to diversified crude oil resources is therefore an important issue for the Quebec refining industry, because it allows supply at a competitive cost. Texas recently became Quebec's leading economic partner, particularly due to our oil imports. Quebec imports nearly 92%<sup>3</sup> of its oil for its refineries, and over 50% comes from the United States.

As the table below shows, the refining capacity of Quebec's refineries exceeds the quantity of oil that could be transported by the inversion of Enbridge Pipeline 9B<sup>4</sup>. Another mode of transportation is therefore required to make up the difference and allow the refineries to benefit fully from the market, by giving them access to diversified sources for their entire supply.

**Table 1. Capacity of Quebec refineries and contribution of Pipeline 9B**

Refineries	Capacity
Suncor	137,000 barrels/day
Valero	265,000 barrels/day
Total	402,000 barrels/day
<b>Capacity of Pipeline 9B</b>	
	300,000 barrels/day
<b>Difference</b>	<b>102,000 barrels/day</b>

The Energy East project would allow increased access to Canadian oil, which **would contribute to consolidation of refining activities**, while significantly contributing to the competitiveness of the last two Quebec 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.

<sup>1</sup> Canadian Association of Petroleum Products, *Refinery Crude Oil Capacity – Canada 1981-2012*.

<sup>2</sup> Valero, *L'importance du renversement de la ligne 9B pour la position compétitive d'Énergie Valero* (presentation), November 2014.

<sup>3</sup> Gouvernement du Québec, Ministère de l'Énergie et des Ressources naturelles, *Politique énergétique 2016-2025 – Profil statistique de l'énergie au Québec*, 2014.

<sup>4</sup> Gouvernement du Québec, Ministère de l'Énergie et des Ressources naturelles, *Politique énergétique 2016-2025 – Hydrocarbures fossiles*, 2015 + site d'Enbridge [[http://www.enbridge.com/ECRAI\\_FR.aspx](http://www.enbridge.com/ECRAI_FR.aspx)].

## 2.2 Consolidation and development of the petrochemical industry

Not only is improved competitiveness essential to the survival of our refining facilities, but it also has an impact on the entire petrochemical industry and the resulting value chain. Close to 70% of the companies in Quebec's chemical and petrochemical sector are located in Greater Montréal. Over the past few years, closures have affected the sector, particularly the closure of the Pétromont facilities in Varennes and in Montréal-Est in 2008 (300 direct jobs lost). Today, the sector is in recovery and attempting to attract new players complementary to the current activities. It is important to give it the necessary tools by ensuring the competitiveness of refining activities.

From a broader point of view, the petroleum sector and its related industries employ 51,000 people in Quebec and contribute more than \$8.8 billion to the GDP.<sup>5</sup> More specifically, the only refinery in Montréal-Est, Suncor, sustains a complex ecosystem of 48 petrochemical companies that employs 3,610 workers<sup>6</sup>. Unique in Canada, the polyester production chain made up of Suncor, ParaChem, CEPESA and Selenis would benefit from a less costly supply of oil, which would likely lead to increased productivity. **This clearly demonstrates that it is very advantageous for the metropolitan area to be connected to the main supply networks.**

In addition to those companies that are directly related to the petrochemical industry, increased access to Western Canada's oil would help to consolidate 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 international freight transportation in the metropolitan area, the Port of Montreal will also benefit from consolidation and recovery of industrial activities in East End Montréal.

## 2.3 Macroeconomic and interprovincial trade impacts

According to the most recent data available, Quebec imported nearly \$14 billion in crude oil in 2014<sup>7</sup>, out of a total trade deficit of \$24.4 billion (2013). As mentioned above, Quebec imports 92% of its oil from foreign countries, and the United States supplies over 50% since the hydrocarbon revolution. 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.**

Finally, **a supply of Canadian oil would also support the development of a national resource, which would benefit all the provinces.** A recent study shows that the exploitation of Western Canada's oil resources generated spinoffs of \$44 billion in 2012 and contributed to support nearly 420,000 jobs in this country<sup>8</sup>. 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

<sup>5</sup> Gouvernement du Québec, Ministère de l'Énergie et des Ressources naturelles, *Politique énergétique 2016-2025 – Hydrocarbures fossiles*, 2015.

<sup>6</sup> Jean-François Minardi, "The Economic Benefits of Pipeline Projects to Eastern Canada", *Economic Note*, Montreal Economic Institute, September 2013.

<sup>7</sup> Gouvernement du Québec, Ministère de l'Énergie et des Ressources naturelles, *Politique énergétique 2016-2025 – Hydrocarbures fossiles*, 2015.

<sup>8</sup> Fédération des chambres de commerce du Québec, *Retombées économiques de l'industrie pétrolière de l'Ouest canadien*, November 2013, p. 3.



equalization program. The study also identified spinoffs of nearly \$1 billion for Quebec in 2012, as well as 10,000 direct and indirect jobs supported by Western Canada's oil industry<sup>9</sup>.

#### **2.4 Direct economic spinoffs of the project**

According to the initial forecasts presented by TransCanada, the project was to allow the creation of 4,500 jobs in Quebec, procure \$1.9 billion in taxes to the governments, and increase the GDP by \$5.8 billion. It is important to specify that these jobs are mainly generated by construction of the infrastructure. Once construction is complete, around 110 permanent jobs were to be created for the operation of the Cacouna terminal.

Since the company's announcement of the decision to abandon the terminal project in Cacouna, these forecasts are no longer valid and a significant portion of the project's direct spinoffs (permanent jobs and property taxes in Cacouna) have therefore decreased significantly. The company says it is evaluating other scenarios, and the Quebec government has set the condition of the necessity of significant economic spinoffs to give its approval in Quebec.

According to the Board of Trade, this is the main aspect of the project that should be improved. The Quebec government has made economic and tax spinoffs one of its conditions for approving the project. In view of these concerns, TransCanada gave the assurance in July that, in the next few months, it would prove that its Energy East Pipeline would generate considerable economic spinoffs. In the absence of this information, it is difficult for the Board of Trade to take a position on this aspect in the context of the present consultations.

This having been said, the Board of Trade considers that while all the provinces have a role to play in the development of Canadian energy resources, it is important to ensure that we can all benefit from them, by mechanisms other than mere equalization payments. However, it is up to TransCanada to choose what it wishes to propose to the Quebec government in terms of a project that generates spinoffs.

**For example, the company could establish a fund to contribute to the startup and development of innovative companies in the clean technology sector.** 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. To this effect, TransCanada should become a full player in this ecosystem by encouraging the development of these new technologies.

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<sup>9</sup> *Ibid.*

### 3. Social acceptability of the project

The TransCanada Energy East project would greatly benefit the economies of Canada, Quebec and the Montreal metropolitan area. Having said this, no project of this scope can proceed unless it applies best practices to the maintenance of oil transportation infrastructures and extremely rigorous spill response measures.

Social acceptability of the project will depend directly on the transparency of the company. It must **reassure the population and public authorities about the measures it intends to take to reduce its environmental impact, and the effectiveness of its spill response measures.**

#### 3.1 Impact on the fight against climate change

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<sup>10</sup>. Furthermore, the end of fossil energy is not imminent, especially considering the revolution in non-conventional hydrocarbons occurring in particular in the U.S.<sup>11</sup> 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<sup>12</sup>.

While savings are possible and desirable due to various measures, such as transportation electrification, we must remain realistic. Freight transportation, 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 inputs in the manufacture of all sorts of processed products by the petrochemical industry.

Quebec has adopted ambitious objectives for the reduction of greenhouse gases (GHG). The Government recently announced consultations to propose a 37.5% GHG reduction by 2030 relative to the 1990 level. While it is difficult to say if we will achieve this very praiseworthy objective, we can affirm that whether or not this pipeline is built will have only a minimal influence on GHG production.

As explained by Pierre-Olivier Pineau, Professor at HEC Montréal and Chairholder in Energy Sector Management, in a letter published in *La Presse* last November, most GHGs are produced during consumption of barrels of oil. While production of one barrel of oil from the oil sands generates 29 kg of GHG more than one barrel of conventional oil, consumption of one barrel, regardless of whether it comes from the oil sands, generates over 400 kg of GHG.<sup>13</sup>

In short, the Board of Trade considers that to fight climate change efficiently, the efforts absolutely must be applied to oil consumption and not to the source of the oil. Blocking the Energy East project would have only a minimal impact on GHG emissions, because the oil consumed in Quebec would simply come from elsewhere, as is currently the case. Moreover, oil transportation by pipeline emits fewer GHGs than the other modes of transportation that consume hydrocarbons for their trips. In this sense, the Energy East project is not an appropriate

<sup>10</sup> World Energy Council, *2013 World Energy Issues Monitor*, London, 2013.

<sup>11</sup> International Energy Agency, *World Energy Outlook 2012*, Paris, 2012.

<sup>12</sup> Gouvernement du Québec, Ministère de l'Énergie et des Ressources naturelles, *Politique énergétique 2016-2025 – Profil statistique de l'énergie au Québec*, 2014.

<sup>13</sup> Pierre-Olivier Pineau, "Le pipeline et le climat", *La Presse*, November 7, 2014, <http://goo.gl/1qPStI>.

target, especially in a context in which the price of the resource ensures it can easily be imported.

Furthermore, the implementation of the Quebec government's carbon market, which Ontario recently joined, means that GHG emission ceilings will be imposed on all the major emitters. Beyond this ceiling, businesses must procure carbon offset credits, and the amounts collected are paid to the Green Fund to finance the deployment of measures seeking to reduce GHG emissions. Thanks to the carbon market, Quebec ranks among the North American leaders and has adopted a mechanism that allows it to act on hydrocarbon consumption and GHG emissions and stimulate environmental innovation.

The Premier of Alberta, Rachel Notley, recently appeared at the Board of Trade to announce her government's intention to increase its efforts in fighting climate change, particularly by betting on clean technologies. Since this sector is especially dynamic in Quebec and in the metropolitan area, several Montréal companies will benefit from eventual business opportunities in Alberta. This having been said, it must not be forgotten that the capacity of Alberta and its companies to invest in green technologies largely depends on a favourable economic situation, which in turn depends on the ability to open up access to the province's oil.

### 3.2 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. Recently, the Canadian Energy Pipeline Association mobilized its members to sign an emergency mutual assistance agreement. 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.<sup>14</sup>

In addition, the Quebec government has made the issues of safety and the environment essential conditions for its approval of the Energy East project. We also must not forget that the NEB is responsible for ensuring that the companies subject to its regulation are accountable for the safe operation of energy infrastructure. To cite a recent example, the NEB imposed conditions on Enbridge for the Line 9B spill, which is evidence that it is listening to the concerns raised by the CMM.

This having been said, even if the competent authorities see to the safe operation of the infrastructure, the company must be a good corporate citizen and show its hands are clean. In all transparency, TransCanada must show it intends to **respect the highest technical standards to ensure public safety and protection of the environment**, and prove it has a **contingency fund and the necessary insurance to deal with a potential spill**, which could have major economic and environmental impacts in the Montréal metropolitan area.

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<sup>14</sup> 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).

## Conclusion and recommendations

**In light of this information, the Board of Trade recommends that the Communauté métropolitaine de Montréal support the TransCanada Energy East Pipeline project.**

However, the company must prove that it is taking adequate measures to avoid a spill and that it has **the insurance and funds necessary to deal with such a spill if an accident occurs**. 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, **TransCanada needs to be completely transparent in demonstrating the methods it will put in place to respond appropriately to emergency situations and to the requirements of sustainable development**. Since Quebec is a major player in the clean technology industry, **the company could seize the opportunity and 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**. After difficult years, this industry is currently in recovery in East End Montréal. Access to new crude oil sources at competitive prices would provide an additional tool for our companies and would allow the consolidation of thousands of jobs.

The Energy East project responds to the four key principles put forward by the Board of Trade in its analysis. It supports the **economic diversification** of Greater Montréal by strengthening the industrial sectors of East End Montréal, at the same time favouring **interdependence** between the knowledge and natural resources economies. It also strengthens the **diversification of the energy subsectors**, improving the Montréal business environment by ensuring the availability of energy resources at competitive prices. Finally, it is **pragmatic**, since fossil fuel energy will continue to be necessary for many years to come.

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 Committee will recognize the role played by Greater Montréal and its business community in driving this economic sector.