



**Ultramar Ltd.**

**The refining and distribution of petroleum products:  
an industry of the future for Quebec**

**Address by**

**Jean Bernier**

**President of Ultramar Ltd.**

**Board of Trade of Metropolitan Montreal  
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Ladies and Gentlemen,

From the outset, I want to state that I believe that I'm right in saying that questions relating to energy have increasingly emerged as one of our major concerns in recent times. In fact, the issue of our energy choices and their consequences for the economy and the environment has become one of the major issues confronting our society.

Few people are aware that Quebec and Canada are among the biggest consumers of energy on the planet. There are several reasons for this situation, notably, our Nordic climate, our industrial structure, our huge territory and our low-density population. However, we must admit that our energy consumption habits and relative low energy costs, especially in the case of electricity, have a lot to do with this situation.

While Quebec's energy consumption per capita is a little lower than the Canadian average, we are almost on the same level as the Americans, and we consume twice as much per capita as the Europeans, the Japanese and about 14 times as much as the Chinese. As you can see, energy consumption is very uneven across the globe, with 16% of the world's population accounting for almost 70% of total energy consumption.

Fortunately, however, Canada and Quebec are major energy producers and exporters, whether it is hydro-electricity and refined petroleum products from Quebec, or crude oil and natural gas from Western Canada and, more recently, from the Atlantic Provinces.

The energy sector is one of the most important sectors of the economy. It is estimated that the sector employs over 40,000 workers in Quebec alone, including many highly specialized and well-paid jobs.

As regards investments, the sector has invested an average of \$3.6 billion per year over the last 5 years, representing 6.5% of all investments in the Quebec economy.

Energy is also at the forefront of our concerns, given the major fluctuations and increases in oil and natural gas prices in recent years. This situation is partly due to the increase in global demand, spearheaded by a surge in the particularly robust demand from Asian-Pacific rim countries, especially China and India.

In fact, 50% of global growth now emanates from the Asian-Pacific region and it is estimated that, over the next few decades, 80% of global growth will come from this region. This high demand has brought about an unprecedented level of activity in the industry, with refinery utilization rate reaching a record level of over 90% and an estimated excess crude oil production capacity of only 1 million barrels/day or approximately 1.5% of the world's production.

However, we should realize that, even if the balance between supply and demand has exerted an upward pressure on prices during recent years, this situation could quickly turn around. We have, in fact, seen a reduction of more than 25% in the price of crude oil since August 2006 (from \$78 US/bbl to about \$56/bbl today), and an even greater reduction in the price of finished products, as evidenced by pump prices. This reduction is not due to a drop in demand, but to higher production levels, favourable weather conditions and a perceived reduction in geopolitical risks.

As citizens and consumers, we are also increasingly concerned about the environmental impacts of our energy choices, whether these are the impacts of production or distribution facilities on our immediate environments, or the impacts of our energy consumption on the more global problem of climate change.

It is in such a context and with this background that I will be talking to you today about the refining and distribution of petroleum products, an industry that is an essential and often misunderstood component of Quebec's energy record. More specifically, I will try to explain how our industry plays a key role at three levels: ensuring the security and reliability of supply, providing a major contribution to the Quebec economy, and boasting a solid environmental record.

### **Security and reliability of supply**

Despite our immense hydroelectric resources, petroleum products account for a 38.5% share of all the energy consumed in Quebec, a share similar to that of electricity. However, when the share occupied by natural gas is included, we see that more than 50% of Quebec's total energy needs are met by oil and gas. 97% of energy consumption in the transportation sector is covered by oil, while hydrocarbons come second behind electricity when we consider the industrial, commercial and residential sectors.

And, while Canada is a net exporter of petroleum and refined products, Quebec and Ontario, which are completely integrated in terms of supply, must import a total of refined products of almost 100,000 barrels per day, that is, close to 6 billion litres per year, or, if you prefer, enough to fuel about 2 million cars per year.

These products are primarily gasoline, which is imported from Europe, and diesel and jet fuel, imported from the Gulf of Mexico or the Caribbean. It should be pointed out that the production of refined products in the Quebec/Ontario markets almost matched demand in 2001. However, since that time, a significant increase in demand and the closure of a refinery in Ontario in 2004 have significantly affected the balance between supply and demand.

This dependence on imported refined products represents a loss of opportunity for Quebec and Ontario, as it means that we fail to reap the benefits of the economic spin-offs associated with the transformation of crude oil into finished products. Moreover, this situation creates major supply challenges, especially in winter when weather conditions can delay the delivery of supplies to Montreal and the St. Lawrence Seaway is closed West of Montreal, making it difficult to supply Ontario.

Given such a context, it would be preferable for existing refineries to become more highly performing and increase their production capacity. Ultramar has taken up this challenge, with the result that, between 2001 and 2007, our investments at our refinery will have represented over \$1 billion. This will have allowed us to complete several projects, among others, the project to boost our crude oil refining capacity from 160,000 barrels per day in 2001 to 215,000 barrels per day today and to over 260,000 barrels per day by December 2007. We account for approximately 50% of Quebec's production and over 25% of the combined production of the 7 refineries in Quebec and Ontario.

What's more, we intend to further increase the security of supplies with the proposed construction of a new pipeline linking the Lévis refinery to our Montreal East terminal.

This pipeline, measuring 240 Km in length, would replace the unit trains and coastal ships that we currently use to ship our products from Lévis to Montreal, and would allow us to deliver over 100,000 barrels per day of refined products, such as, gasolines, diesel fuel, home heating oil and jet fuel.

While unit trains and coastal ships have served us well over the years to transport our products between Lévis and Montreal, and we intend to continue to rely on them in the future to supply our other terminals, the new pipeline has several advantages when it comes to transporting substantial volumes on a daily basis between our refinery and our Montreal East terminal. It is an extremely safe means of transportation, one that is not subject to weather conditions, has little impact on the environment because the pipeline is buried at a depth of 1 metre, its operation generating no greenhouse gases. Furthermore, should demand continue to rise, we could increase throughput by over 50%, by simply adding one or two additional pumping stations.

### **A major contributor to the Quebec economy**

Our industry represents a major contribution to the economy of Quebec. Let's first take a look at direct and indirect jobs. At Ultramar alone, we have 3,700 employees, including 2,500 employees at service stations directly operated by the Company. When we include our dealers and associates who are involved in our various marketing and distribution networks, we estimate that we contribute to maintaining some 10,000 additional jobs.

We offer our employees a stimulating and high quality work environment, as witnessed by our ranking among the 50 best employers in Canada in 2006, and, our first place ranking in Quebec, according to a study sponsored by *the Globe and Mail* and *La Presse* newspapers, which was based on employee survey results and was completed by the Hewitt consultant company.

Our Canadian Head Office is located in Montreal and our operating expenses are in excess of \$600 million per year, of which more than 80% is directly incurred in Quebec.

However, our most important and most strategic contribution to Quebec's economy is undoubtedly the major investment program that we completed during recent years. In fact, between 2001 and 2007, this will amount to about \$1.4 billion, or an average of \$200 million per year that we will have invested in our refinery, our distribution and retail sales networks. Among others, these investments will have allowed the production of ultra low sulphur gasoline and diesel, the expansion of production at the refinery to 260,000 barrels per day, improvements to our distribution network, including the construction of a new terminal in Eastern Ontario and the construction or upgrading of over 200 service stations.

When one considers that over 60% of our investment expenditures goes towards skilled construction and engineering labour costs, that translates into some 1,500 jobs being created each year, during the past 7 years, solely by our investment programs, which number can be added to the other job figures I mentioned previously.

I believe that these investments are particularly significant because they have mostly been made in Quebec, without the help of any subsidy, at a time when Quebec has an urgent need of investment from the private sector and is crippled by one of the lowest levels of investment per worker among all the Canadian provinces.

These investments not only create new jobs and secure high-quality existing jobs, but they contribute to making our industry highly performing and competitive. Several studies, including one by the Conference Board of Canada in 2001, have shown that, in Canada, we have some of the lowest pump prices, before the different taxes, from among all of the industrialized countries. Of course, we are here talking about pump prices before taxes, as these taxes account for a significant portion of the pump price. In fact, if we take the average price of regular gasoline at the pump in Montreal since the start of 2006, which is \$1.04/L, this means that approximately 40 cents per litre goes towards the various federal, provincial and municipal taxes.

We should also bear in mind that the acquisition costs for the raw material, that is, crude oil, represents 48 cents per litre of the pump price. Also, keep in mind that a company such as Ultramar, or its mother company (Valero Energy) possesses no interest in the exploration and production of crude oil and buys its raw material every day at market price.

About 16 cents per litre is then left to cover costs related to refining, distribution and retail sales. We can thus conclude that Quebecers and Canadians benefit from an industry that is highly efficient and also highly performing.

Regarding the industry's profits, a lot of erroneous or incomplete things are often being said and written about them. People often confuse profits coming from crude oil exploration and production activities worldwide with profits generated by more local refining and distribution activities. Comparisons are also made between companies that differ radically in terms of size, capitalization or geographical presence. However, the reality is that, over the past 10 years, Canadian public companies generated, from their downstream sector, that is, refining, distribution

and retail sales, an average profit of about 1.2 cents per litre, which has allowed a return of about 12% on capital invested. This is certainly an acceptable return, but it is far from placing us among the top group of manufacturing companies.

### **A solid environmental record**

Environmental protection constitutes a fundamental value for Ultramar and the production of clean products is an integral part of our mission statement.

State-of-the-art technology at our facilities allows us to manage our activities responsibly, with due regard to environmental protection, as well as to the health and safety of our employees, neighbours, customers and partners.

We are especially proud of our environmental record. First and foremost, our refinery is one of the most highly performing in Canada, in terms of greenhouse gas emissions per production unit. This leadership position as regards low CO<sub>2</sub> emissions, is due to our extensive use of electricity as an energy source in our refining processes, and also to the major investments we made during recent years with the sole objective of improving our energy efficiency.

As a matter of fact, these improvements to our refining processes, combined with our investments, have meant a continuous improvement of our energy efficiency over these past 15 years, such that, today, we emit 35% less greenhouse gases in transforming each barrel of crude oil into finished products.

We have significantly reduced atmospheric emissions resulting from our refining activities to a level that, once again, places us among the leaders in the industry. We have also improved our waste water treatment systems and, on a voluntary basis, we have installed a vapour recovery unit at our Quebec City loading racks.

Finally, over the past 5 years, we have proceeded with the decontamination, clean-up and restoration of over 80 service station sites or distribution terminals that had been closed.

On the subject of fuels, the production of ultra low sulphur gasolines and diesel, combined with new technologies for catalyzers and exhaust systems for vehicles allow the elimination of over

90% of polluting emissions, in particular smog precursors (sulphur and nitrogen oxides), which will significantly improve the quality of the air in our cities.

### **Respect for our environment and community involvement**

We take very seriously our responsibility to protect the health, safety and the environment of our employees and communities in which we operate. We have in place operations management and health and safety programs that are among the most stringent in the industry and our results bear this out.

For many years now, Ultramar has seized every opportunity to acquire land in order to create a buffer zone between the surrounding community and production and storage facilities. Ultramar actively continues to watch out for all possible opportunities to increase this buffer zone.

In 2003, Ultramar acquired the *Parc Des Écartes*, located on the east side of the Jean-Gaulin Refinery in Lévis. Covering an area measuring 65.5 hectares, this woodland constitutes an ideal green zone to better isolate the refinery from neighbouring residential areas, while also allowing these residents to enjoy an exceptional environment. Our goal is to turn it into a conservation park for the flora and fauna that are specific to the Lévis region.

I hope I have succeeded, during the last few minutes, in demonstrating some of Ultramar's contributions, and also those of our industry as a whole, to the enhancement of Quebec's society and economy.

I want to close by saying a few words about the **Action Plan on Climate Change** that was unveiled during the last few months by the Quebec government.

On the whole, we endorse the main elements of this Plan. We believe that it proposes clear and concrete measures to improve our energy efficiency as a society and as consumers. It tackles several elements of the problem, including the efficiency of the vehicles we all drive on our roads. It also encourages the development of cellulose ethanol, made from wood biomass and agricultural residues, which, we believe, is a lot more preferable to corn ethanol, whose net environmental record is highly questionable.

-We also believe that a renewed role for the Quebec Energy Efficiency Agency (*l'Agence d'Efficacité Énergétique*) is central to the Quebec government's policy. However, its success will depend, among other things, on changes in consumer behaviour and on the implementation of major public awareness campaigns. Ultramar is more than ready to play an active and positive role alongside the Quebec Energy Efficiency Agency and the Quebec Energy Board, which have to determine its budgets.

Despite the most optimistic forecasts regarding the development of renewable energy sources, most observers are in agreement that oil will remain the main energy source across the globe for several decades to come. In this context, the presence of a petroleum product refining and distribution industry that is efficient, performing, responsible and competitive will always be of benefit to consumers and the economy of Quebec and Canada. Every day, all our employees enthusiastically and skilfully meet this challenge.

I want to sincerely thank you for your gracious invitation to speak to you here today.