



**Chambre de commerce
du Montréal métropolitain**

Board of Trade of Metropolitan Montreal

Energy as a source of development for Quebec

Brief presented to

The Quebec National Assembly

As part of the Parliamentary Commission on the Economy and Labour

by

The Board of Trade of Metropolitan Montreal

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Principal recommendations of the Board of Trade of Metropolitan Montreal with regard to the energy sector in Quebec:

- Foster support for Hydro-Québec's applied research and development activities.
- Put in place tax measures to offset the additional costs of purchasing biodiesel fuel.
- Maintain a policy of competitive electricity prices for businesses.
- Maintain electricity-price stability and predictability over the long term, in keeping with the cost of living.
- Promote an increase in electricity generating capacity in order to meet demand and increase revenues from the export of surplus electricity.
- Encourage optimal use of different forms of energy, especially natural gas.
- Diversify energy sources and promote windpower, a type of energy that reduces greenhouse gases.

The Board of Trade of Metropolitan Montreal

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its mission is to represent the interests of the business community of the Montreal metropolitan area and to offer an integrated range of specialized services to individuals, merchants and businesses of all sizes in order to help them achieve their full potential in terms of innovation, productivity and competitiveness. The Board of Trade is the largest private organization in Quebec dedicated to economic development.

Introduction

It is with great interest that the Board of Trade of Metropolitan Montreal wishes to respond to the consultation document entitled "The Energy sector in Québec - Context, issues and questions" which was made public in November 2004 and which is the subject of the present Parliamentary Commission on the Economy and Labour.

From the outset, the Board of Trade would like to mention the interest shown by its members concerning the issue of energy security in Quebec and its importance for the economic development of the province and its metropolis.

Quebec has an international reputation for technical and professional expertise, particularly as regards the generation, transmission, distribution and industrial use of electricity. This mastery in the energy sector has largely contributed to the province's economic development and is closely tied to the path of sustainable development that Quebec is now taking.

Since there is a very close link between Quebec's energy policies and its present and future economic development, the Board of Trade is convinced that in the present context of competition between nations, Quebec has no other choice but to adjust its development policies according to its assets.

In the Board of Trade's opinion, nations that develop economic initiatives and levers combining innovation, productivity and competitiveness will be best equipped to compete with other nations. To combine these three elements, the Board of Trade believes that all players involved in Quebec's economic development must find creative ways of identifying the best paths to take to ensure sustainable economic development. One of Quebec's key assets in this regard is the energy sector, which is vital to the province's economic development.

It is in this context that the Board of Trade wishes to contribute to the work of the Commission on the Economy and Labour by identifying certain structuring factors of energy security that have significant repercussions on the economic competitiveness and future development of the province and its metropolis. The Board of Trade will set forth in this document its recommendations concerning specific factors that it deems crucial to the economic development of the province and its metropolis, in order to create an environment conducive to business growth.

1. The choice of innovation

The key player in power generation and distribution in Quebec, Hydro-Québec, in addition to its mandate of supplying electrical energy throughout the province, is involved in researching and developing numerous electricity-related innovations. This innovative and pioneering role is, in the eyes of the Board of Trade, an important engine of economic development, since the projects developed generate major spinoffs for Quebec and its metropolis. Through partnerships with research and university centres and with Quebec businesses, these projects also allow for the marketing of some innovations. Hydro-Québec plays a pivotal role as well in increasing Quebec's wealth and the competitiveness of its businesses, particularly with measures to achieve energy efficiency and reduce energy consumption.

In the Board of Trade's opinion, supporting Hydro-Québec's applied research and development activities is essential, first, because it helps position Quebec and many businesses in the energy and sustainable development sector on the international scene and second, because it helps consolidate the credibility acquired over the past few years. In this regard, we note a strong global trend towards urbanization and industrialization, particularly in the emerging regions of Asia and South America. The Board of Trade believes Quebec should capitalize on the expertise it has acquired in the energy sector. One way of doing this is to support initiatives to commercialize the knowledge of Hydro-Québec's employees. For the government corporation, such an approach has the double benefit of disseminating and increasing awareness of some of its technological innovations, as well as marketing them abroad.

In addition, while Quebec is in an enviable position in terms of power generation and marketing of innovations, it is also a leader in the production of biodiesel fuels from used oil and grease from the agrifood sector. In the present context, where many initiatives are being taken around the globe by nations, businesses and citizens to reduce greenhouse gas emissions (GHGs), the Board of Trade is very favourable to using this type of fuel. However, since it costs about 20 cents a litre more than petrodiesel fuel, tax measures should be put in place to make the cost of this type of fuel comparable to that of petrodiesel. It should be noted that Ontario public transit companies enjoy tax holidays and that many purchase fuel in Quebec.

The Board of Trade believes it would be in the interest of the Quebec government to put tax measures in place to offset the additional cost of purchasing these recycled fuels rather than conventional fuels. These tax measures would promote the use of this type of fuel, not only by transit companies but also by trucking businesses and individuals. For the Société de transport de Montréal (STM), the extra cost of buying biodiesel instead of conventional petrodiesel comes to about \$2 million a year. In the Board of Trade's opinion, this sum seems rather negligible, considering the benefits such an initiative would generate in terms of both reducing GHGs for a large international metropolis like Montreal and raising public awareness of effective – and relatively inexpensive – ways of reducing GHGs. Lastly, such an initiative would help position Quebec as a leader in the production and use of this type of fuel.

2. Energy as a major contributor to economic competitiveness

Historically, Quebec has opted for low electricity prices for both its citizens and its businesses. In the eyes of the Board of Trade, this choice constitutes a key competitive advantage, particularly for businesses, be they big energy consumers or smaller companies like SMEs in the manufacturing sector. This competitive advantage is very instrumental in attracting businesses and investors to Quebec and retaining them.

Our abundant hydroelectric resources enable Hydro-Québec to offer Quebec citizens and businesses electricity at lower prices than in Ontario or the United States. This availability of low-priced electricity has contributed significantly to Quebec's economic productivity and has fostered the development of the pulp and paper and aluminium industries, two industries that play a predominant role in Quebec's development because of the economic spinoffs they generate in many sectors of activity. For example, the aluminium industry represents 15,000 jobs in Quebec and spending in goods and services on the order of \$1 billion annually. This sector is also highly energy consuming, with electricity representing 35% of the operating costs of aluminium plants in Quebec. Energy costs are an extremely important factor in companies deciding to build their plants at the most suitable location.

Advantageous prices are an important economic lever for Quebec and, in the Board of Trade's opinion, maintaining a globally competitive pricing policy for businesses is an asset that investors, entrepreneurs and manufacturers should be able to count on in the years to come.

However, if price changes – in keeping with the cost of living – are made because of inflationary pressures, the Board of Trade believes it is very important that such changes be predictable over the long term and that they be implemented in such a way as to avoid shocks. Generally, industries that must make substantial investments to modernize their infrastructures need to know the operating parameters. In the eyes of the Board of Trade, long-term stability and predictability of electricity prices is in itself a competitive advantage for Quebec, and it is essential that efforts be made to maintain this advantage and that prices remain highly competitive compared with those in other markets.

Another key factor for businesses when it comes to determining how much to invest is the assurance that they will have an adequate supply of electricity to operate their plants. In the Board of Trade's opinion, for companies to be competitive, they must know in advance how much electricity will be available and for how long, so they can make the most suitable investments.

It seems, though, that Hydro-Québec expects electricity export opportunities to decrease considerably over the next few years, because Quebec's energy supply will no longer meet the demand of residential and business customers. In this context, the Board of Trade believes that increasing Quebec's electricity generating capacity in order to meet demand and increase revenues from the export of surplus electricity should be a priority, while continuing to put Quebec's needs first. Hydropower also represents a competitive advantage, because it is locally produced energy that can generate substantial revenues, including revenues from abroad in the case of exports. This increase in government revenues should not, however, be done at the expense of wealth creation through economic development; we must ensure that Quebec, while exporting, has enough energy to sustain its internal development. In the Board of Trade's opinion, the Quebec government – which reaps the dividends of this development – should allocate electricity export revenues, on a priority basis, to servicing the debt.

3. Energy as a source of wealth

Thanks among other things to its many large hydroelectric reservoirs, Quebec is in an enviable position vis-à-vis its neighbours Ontario and the northern states of the U.S. Indeed, when it comes to managing its stores of electrical energy, Hydro-Québec has a major advantage because it can bank energy in the form of water and sell it on foreign markets when prices are high. Quebec is also able to purchase

electricity when it is available at prices lower than what it would cost to produce it in Quebec. The government corporation can therefore bank “non-produced energy” in its reservoirs and use it when required to meet local needs or sell it on foreign markets. Because of their types of energy production, the northern states of the U.S. and Ontario – the main buyers of Quebec electricity – do not have this capacity to bank energy.

The Board of Trade believes it is important for the province’s development to capitalize on this competitive advantage. Exporting energy surpluses does not constitute a threat and, in the Board of Trade’s opinion, Quebec cannot afford to deprive itself of revenues from this source. Over the past four years, profits of \$1.7 billion were made from these exports¹, a sum equivalent to the amount invested by the Quebec government in the construction of the two future Montreal hospitals.

Offering electricity at advantageous prices to local businesses, thereby enabling them to be much more competitive while generating economic spinoffs in Quebec, must remain a priority. The Board of Trade believes a balance must be struck between exporting electrical energy and using it to meet the needs of local businesses, including SMEs and big companies in the manufacturing sector. An adequate supply of electrical energy is in fact an essential condition for local businesses.

Quebec also has various types of energy production and different types of energy whose uses, in the Board of Trade’s opinion, should be reviewed. Hydropower is one of the main sources of energy, and the Board of Trade believes this form of energy is one that should be developed more for the benefit of citizens and businesses alike. Quebec still has vast untapped hydroelectric potential as well as world-renowned expertise. However, it appears that diversification in terms of both types of production and energy sources could be advantageous for certain types of needs. For example, the use of natural gas for residential and commercial heating and for numerous industrial processes shows that the best way of achieving energy diversification in Quebec and avoiding dependency on a single source of energy is to make optimal use of different forms of energy. Such diversification would also create electricity surpluses that could be sold on foreign markets, thereby contributing significantly to the coffers of the provincial government.

In a context where numerous initiatives to reduce GHGs are being put in place to meet the objectives of the Kyoto Protocol, the use of clean energy sources is essential. By producing and using energy sources that are among the cleanest in the world, Quebec is doing its share to maintain environmental quality. While Quebec has largely developed its hydroelectric potential, such is not the case with its wind potential which, if developed, could boost Hydro-Québec’s electricity generating capacity. The Board of Trade believes that windpower, a form of renewable energy whose environmental impacts are minimal compared with those of other energy sources, would have major benefits in that it would enable Hydro-Québec to reduce hydroelectricity production, bank energy in the form of water in hydroelectric reservoirs and then export this energy when market prices are high. For all these reasons, and especially because hydroelectricity is an innovative form of energy, the Board of Trade thinks investments in this sector should be prioritized in order to better identify sites conducive to wind resource development and eventually increase windpower use.

Lastly, in the Board of Trade’s opinion, environmental quality is, for the province as a whole, a unique competitive factor that must be maintained. In this regard, Montreal will host in December 2005, the 11th Conference of the Parties to the Kyoto Protocol, an important meeting that will be attended by almost 10,000 specialists on issues relating to the reduction of GHGs. It would be in Quebec’s interest at this meeting to position itself as a major leader in renewable energy production and as a contributor, through its choice of energy sources, to the reduction of GHGs.

¹ Government of Québec, *The Energy Sector in Québec - Context, issues and questions*, 2004.

If Quebec truly opts for sustainable development, a wise choice of energies and the ways of producing and using these energies will be crucial. The Board of Trade believes that the province's future development largely depends on this and that energy projects must therefore be carried out with a view to ongoing, sustainable development, both environmental and economic.

Conclusion:

In many respects, Quebec is in a very enviable position as regards the production and sale of its energy resources. The province has major resources and vast development potential, as well as the capacity to bank energy and sell it on foreign markets when prices are high. Few nations are blessed with such assets and, in the Board of Trade's opinion, Quebec cannot afford not to capitalize on its energy resources and the expertise it has developed.

Innovation in the energy sector through efficient development and optimal use of energy, putting in place measures to make energy a factor of economic competitiveness for businesses, and using energy to generate wealth are three ways of contributing to the economic growth of Quebec and its metropolis.

All the recommendations contained in this brief, such as supporting Hydro-Québec's applied research and development activities, maintaining advantageous electricity prices for Quebec businesses, increasing hydroelectric production capacity and continuing to export Quebec's energy surpluses will, in the Board of Trade's opinion, help make Quebec and its metropolis highly competitive places to do business.

Because the Board is convinced that the energy sector and its many components are crucial to the development of Quebec and its metropolis, and because it wishes to be responsible partner and contribute to this development, the Board of Trade fully supports the Quebec government's continuing efforts with regard to the implementation of Quebec's future energy policy.