



**Fax**

**Confidential**

**To:** Mr. Luc Boulanger

**From:** John Kamler

**Fax Number:** 514-631-4921

**Fax Number:** 416-237-1347

**cc:** Guy Sarault Heenan Blaikie

**Fax Number:** 514-921-1317

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**Comments:** If all pages not received, please call Severina Butt at 416-234-7550



By Fax#: 514-631-4921

October 14<sup>th</sup>, 2003

Mr. Luc Boulanger  
Directeur général, AQCIE  
Bureau de l'AQCIE - Centre de conférence  
1010 rue Sherbrooke Ouest  
Montréal (Québec)  
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Dear Mr. Luc Boulanger,

ERCO Worldwide is concerned about the sudden decision by Hydro-Quebec to implement a 6% increase in the electricity rate. The increase will negatively impact the competitiveness of our Buckingham manufacturing facility located in Gatineau. This is particularly concerning as our facility primarily exports to the United States and is already facing the challenge of the increase in the Canadian dollar.

The following summarizes our issues and the basis of our concerns regarding the rate increase and the impact on the competitiveness of our Buckingham manufacturing site.

### **ERCO Worldwide - Company Overview**

ERCO Worldwide is a division of Superior Plus, Inc.

ERCO Worldwide is a leading supplier of chemicals and technology to the pulp and paper and water treatment industries. The Company has served the pulp and paper industry since the early 1940's.

ERCO Worldwide is the leading worldwide supplier of chlorine dioxide technology and the largest producer of sodium chlorate in North America with an annual production capacity of 580,000 metric tonnes.

Sodium chlorate is an industrial salt used primarily in the pulp & paper industry for the manufacture of chlorine dioxide, a bleaching agent providing high quality and environmentally friendly white paper products.



*Engineering · Research · Commitment · Optimization*

**ERCO Worldwide**

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ERCO Worldwide's head office is based in Toronto, Ontario. The Company operates eight (8) sodium chlorate manufacturing plants. The company operates in every Province west of the Maritimes.

- Buckingham, Quebec;
- Valdosta, Georgia, USA;
- Thunder Bay, Ontario;
- Hargrave, Manitoba;
- Saskatoon, Saskatchewan;
- Grande Prairie, Alberta;
- Bruderheim, Alberta;
- Vancouver, British Columbia.

Sodium chlorate is manufactured by an electrolysis process and as such is very energy intensive. Electricity costs represent in the order of 60% of the plant manufacturing costs.

These manufacturing sites supply sodium chlorate to the pulp and paper industry located across North America. Quantities of sodium chlorate are also exported overseas.

The Company is also the largest North American producer of sodium chlorite. The sodium chlorite manufacturing process uses sodium chlorate, as its primary raw material.

Two manufacturing sites, Buckingham (Quebec) and Broadway (Thunder Bay, Ontario) produce sodium chlorite. Sodium chlorite is distributed to the water treatment industry throughout North America.

#### **ERCO Mondial (Gatineau, Quebec)**

The Buckingham Plant, located in the City of Gatineau, started its operations in 1897 and is the founding location for the Company.

Presently, the Buckingham site has a production capacity of 125,000 tonnes of sodium chlorate and of 3,500 tonnes of sodium chlorite.

The Buckingham site typically only sells 20% of its sodium chlorate production within the Province of Quebec, another 20% is sold within other provinces of Canada and 60% is exported to the United States.

Sodium chlorite from the Buckingham site is 95% exported outside of Canada, primarily to the United States.

At full capacity the plant consumes in the order of 750,000 MWh of electricity



### Business Situation

With eight (8) manufacturing sites all producing sodium chlorate, the Company seeks to optimize its operating costs by preferentially utilising the most cost effective plants.

This is even more prevalent with the higher Canadian dollar having significantly added pressure to all exported products. Electricity costs are 60% of the total production cost and 80% of the variable costs in manufacturing sodium chlorate. Consequently, the price of electricity is the primary consideration for competitiveness in the markets and for deciding plant utilisations.

Presently, four (4) of the eight (8) ERCO Worldwide sodium chlorate plants have lower electricity prices than the Buckingham site. More than half of the sodium chlorate presently produced by ERCO Worldwide is at a lower electricity rate than the Buckingham facility.

The proposed 6% increase by Hydro-Quebec will increase the differential in these electricity rates. This will make the Buckingham Plant even less competitive against three (3) of the Canadian ERCO Worldwide plants as well as with its U.S. plant located in Georgia. Consequently, a reduction in competitiveness could in the short term displace production from the Buckingham Plant to other ERCO locations.

With over 60% of Buckingham's production exported to the United States the timing and abruptness of the increase will significantly compound the trans-border competitiveness difficulties caused by the recent 20% increase in the value of the CDN \$ to the US\$.

It is also evident that higher electricity rates, and particularly such unforeseen increases, will be taken into consideration as the company evaluates decisions on the implementation of capital investments across the Company.

Yours sincerely,  
ERCO Worldwide

A handwritten signature in black ink, appearing to read "John B. Kamler", written over a horizontal line.

John B. Kamler  
Vice-president Development

c.c. : Guy Sarault, Heenan Blaikie  
FAX : 514-921-1317