

## AGNICO EAGLE

September 12, 2018

The Honourable Catherine McKenna, P.C., M.P.  
Minister of Environment and Climate Change Canada  
200 Sacré-Coeur Boulevard  
Gatineau, Québec  
K1A 0H3

Re: Follow-up from May 1<sup>st</sup> letter - Carbon pricing in the Nunavut

Dear Minister McKenna,

This letter is a follow-up from my May 1<sup>st</sup> letter where I shared with you Agnico Eagle's views on the challenges and opportunities in Nunavut. I would like to come back more specifically on the issue of Carbon pricing to be applied to our current and future operations in Nunavut. Before I do that, I wish to express our appreciation for the adjustment Environment and Climate Change Canada (ECCC) recently made to its Output-Based Standards (OBS) for the federal carbon pricing system.

ECCC's updates on the approach, based on its Phase 1 and Phase 2 analysis, supports Agnico Eagle's efforts to reduce our emissions and drive clean innovation while bringing much-needed prosperity to Canada's North.

As ECCC completes its competitive analysis, we were invited at the ECCC-Mining territories meeting held in Whitehorse on July 31<sup>st</sup> to provide additional comments on the OBS for Northern mines. Therefore, we would like to respectfully suggest other propositions to the approach which would promote a stronger partnership between the Federal government and mining companies like Agnico Eagle to achieve Canada's climate change goals, accelerate the decarbonization of Nunavut and maintain the global competitiveness of our country's mining sector.

### UNLOCKING THE POTENTIAL OF CANADA'S REMOTE AND NORTHERN MINING COMMUNITIES

Agnico Eagle has been operating in Nunavut for over 10 years. As I stated before, Nunavut is a welcoming place to do business, but the lack of critical infrastructure and viable alternative sources of energy make the estimated cost of developing a gold mine in northern Canada 2 to 2.5 times higher than in the south.

This is our reality. Our electricity costs in Nunavut are two to four times higher than in southern provinces and approximately six times higher than our cost of electricity in Quebec. As a result, our Meadowbank mine in Nunavut, as of 2017, is the most challenging operation in our Canadian portfolio. Despite 8 years of operating the mine, we have yet to recover our original investment, taking write-downs in 2011 and 2013 that totalled \$1.2 billion (US\$).

Between 2018-2019, Agnico Eagle will have invested \$1.6 billion to build our Nunavut platform (to mine the Meliadine and Amaruq deposits) and related local infrastructure. This, combined with annual



expenditures of nearly \$600 million toward local procurement, payroll, and fees/royalties to Inuit organizations, are tangible evidence of Agnico Eagle's commitment to the region.

However, the latest carbon pricing system will impose another layer of financial obligations on Agnico Eagle that will significantly limit our ability to invest in the region in the future.

Using this draft OBS criteria for mining and electricity, we estimate the proposed carbon pricing system will add an additional \$48 million to Agnico Eagle's costs throughout the current life of our Nunavut mines (14 years). While we understand the underlying concept of driving emission reduction and the need to incent a move toward cleaner sources of power, the lack of alternative energy sources in Nunavut creates a Catch-22 situation – acting as an unfair tax burden (a carbon tax) and a barrier to further economic development in Canada's North.

These cost increases will put Agnico Eagle at a competitive disadvantage within our own country and across other global mining jurisdictions, as well as increase the risk of carbon leakage. As a gold producer, we are entirely a price taker, we cannot pass on the higher costs of doing business to our customers. Instead, we will have to absorb these costs and seek other ways to limit our financial exposure. As proposed – even with the mining sector OBS adjustment to 80% of the mining sector's average GHG emissions intensity irrespective of location – we believe that the carbon tax will have a negative impact on the competitiveness of Canada's gold mining sector, the viability of new resource projects in the North, and will severely limit Canada and Nunavut's ability to attract further mining investment to Canada's North.

In addition, as you know we generate our own electricity in Nunavut where no power grid exists. The electricity generation sector OBS has been set at 420 t CO<sub>2</sub>/GWh. This OBS is based on the highest efficiency-proven generators using natural gas. Unfortunately, natural gas is not available in remote communities of Nunavut. Even with the latest and highest efficiency fuel generators, our GHG emissions at our Meliadine project will be approximately 640 t CO<sub>2</sub>/GWh which amounts to 65% of the OBS for electricity generation. While we have purchased dual generators for our Meliadine project (natural gas and fuel), we have not found a way to deliver and store natural gas throughout the year. While we continue to look at different solutions with multiple suppliers, at present it appears that, without government support, it will be very difficult to find an economical solution using natural gas. Therefore, we believe that the OBS for electricity generation should be *based on carbon produced in excess of the best existing alternatives in the region, rather than for all Canada*.

We understand that less expensive energy is the key to unlocking the unlimited potential of Canada's North. We believe there is a path forward that could accomplish the objectives of all stakeholders– and we offer the following proposal to help build a clean, sustainable economy that will benefit future generations of Nunavummiut.

#### **RE-INVESTING CARBON TAX PAYMENTS TO DO GOOD**

We believe a carbon tax in remote communities should only be implemented once the necessary energy infrastructure – or viable alternatives – are built or made accessible. In their absence, we believe some simple modifications to the carbon tax structure could make a significant difference, converting the structure from a tax on those who can least afford it into a progressive policy tool with a



large positive impact on Nunavut. These modifications include basing the tax on the *carbon produced in excess of the best existing alternatives in the region, rather than for all Canada*.

We believe that any carbon tax obligations should, as a priority, be re-invested by the company to improve the social and economic well-being of Nunavut. This could be done via an **individualized trust account** dedicated to:

- Develop clean-energy alternatives to help reduce diesel reliance and GHG emissions
- Conduct R&D on energy optimization in Nunavut to support communities or local businesses
- Build basic infrastructure to support communities or local businesses (housing, roads, ports, broadband, etc.)
- Provide training and recruitment within Inuit communities
- Enhance educational opportunities for the Inuit community, including contributions to establish a university
- Develop an incentive program to promote and utilize local, Inuit-run businesses

For the Government of Canada, this approach achieves the dual purpose of implementing carbon pricing and building capacity within the territory. The Government of Nunavut, would determine the socio-economic criteria for projects submitted by the company to access the trust funds. This, in turn, will help level the playing field and allow Nunavut to compete with other provinces and territories to attract investments. For industry, this approach helps to neutralize the financial impact of the carbon tax and maintain the investment interest in projects, infrastructure and related training. Most importantly for the communities, it supports their collective need for more infrastructure and businesses that can provide more jobs and enhance training opportunities.

#### **ACCELERATING THE DECARBONIZATION OF NUNAVUT – A BREAKTHROUGH SOLUTION**

As stated in my May letter, Agnico Eagle has undertaken extensive research into energy alternatives for our operations and nearby communities in the Kivalliq region, including extending a power line from Manitoba and windfarm project scenarios.

Through this research, the alternative energy solution we are most excited to pursue is the development of **the world's largest renewable energy micro-grid**. We believe this near-term solution could accelerate the environmental and economic benefits of green power for Nunavut and could set a global example of energy innovation and leadership for others to model. The micro-grid would form the starting point for a distribution network within Kivalliq and be complementary to a future power line. It could:

- Bring reliable green power to 7,500 Inuit (20-25% of Nunavut's population)
- Lower GHG emissions by over 1.5 million tonnes
- Provide substantial energy savings and GHG reductions 7-10 years earlier while waiting for a power line
- Reduce the cost of electricity to the 3 northern communities involved by more than half, generating cumulative energy savings of more than \$110 million for them, before a power line may be completed

- Provide backup power for the region once a southern link is established, a necessity in the harsh Arctic environment
- Be partially funded by Agnico Eagle and 100% owned by the Inuit, reducing Nunavut's eventual reliance on Manitoba


To be economically viable this project would require the financial support of your government – through direct or indirect project financing.

Agnico Eagle's contribution to this public/private partnership would be to provide substantial Nunavut "Arctic-specific" logistic and construction expertise, as well as a significant portion of the project's funding through a pre-payment of the carbon tax into an individualized trust account. Our Nunavut mines would also act as an economically sound, majority off-take customer for many years into the future – significantly reducing the long-term economic commitment of, and risk to, governments. We'd be delighted to go over the mechanism of this proposal with members of the Government of Canada.

This proposal will accelerate the decarbonization of Nunavut and usher a new era of cleaner energy in Canada's North. It also complements what we believe is the best way to administratively ensure that the benefits of any carbon tax flow back to all key stakeholders – namely, establishing a system whereby the proceeds from the carbon tax are returned to the "payer" and reinvested to improve the social and economic well-being of Nunavummiut.

I want to acknowledge that our team had the opportunity to pursue these ideas with you, ECCC representatives, and other federal and territorial ministries at various occasions in the last few months. We seek to further these discussions and partner with the Governments of Canada and Nunavut on how we can jointly accelerate the decarbonization of Canada's North and reinvest in the socio-economic well-being of Nunavut.

Sincerely,

  
Sean Boyd  
Vice-Chairman and Chief Executive Officer  
Agnico Eagle Mines Limited

cc: The Honourable Bill Morneau, P.C., M.P.  
The Honourable Joe Savikataaq, Premier of Nunavut  
The Honourable David Akeeagok, Deputy Premier