

July 2021

Public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

- Boliden Response -

Boliden welcomes the opportunity to respond to the public consultation on the Review of the EU State Aid Guidelines for Climate Environment protection and Energy (CEEAG). Boliden supports the European commission's goal to become the World's first climate-neutral continent by 2050; a goal that can only be achieved through an extensive reduction of fossil fuel consumption and a strong increase in base metals production. More copper, zinc, nickel and other base metals are needed in order to change and develop industry and the transport sector, and to increase fossil free energy production. Our view is that the Green Deal, the transformation of Europe towards a fossil-free future, needs to be based on the development of better techniques and the incentive of profit.

Current ETS sectors have already contributed significantly to the reduction of the EU's emissions. Therefore, it is important that the additional effort to strengthen the target of a 55% reduction in GHG by 2030 must not force these sectors to contribute disproportionally more than others. All sectors of the economy (ETS-sectors and non-ETS sectors) should play their part. The reduction obligations between sectors need to be balanced and based on the reduction potential of each sector, in a cost-effective way.

Boliden has set an ambitious goal to reduce CO₂-emissions by 40% (compared to 2012) by 2030. Our goal is to provide the metals essential to improve society for generations to come with consideration to people, the environment and the society. Boliden is the first company in the world to offer two separate green copper products, produced in Sweden with drastically lower carbon footprint than the global average. One product, Low-Carbon Copper, is produced from concentrate from Boliden's own copper mines. The other product, Recycled Copper, has the same emission standards as Low-Carbon Copper, but is produced from secondary raw material such as used electronics and other applications. This is one of our initiatives to contribute to our

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vision - to be the most climate friendly and respected metal provider in the world. Today, the climate impact of Boliden's value chain is already significantly lower than the global average for our industry.

Boliden considers the existing EU ETS to be the key tool for addressing the reduction of CO₂-emissions and to protect the competitiveness of the energy intensive industries. Although the current framework has not provided full protection, the system of free allocation and indirect compensation has limited carbon leakage in Phase III of the EU ETS. Looking ahead, with a higher ambition and a higher carbon price, the EU needs to increase, not reduce carbon leakage protection.

A fossil-free future is only possible if industry has access to fossil-free energy at competitive prices

The Mining and Metals industry is global. Prices are set on a global market and are influenced mainly by economic growth rates and expectations of supply and demand. The European raw materials sector enables the transformation of Europe into a low carbon society and electrification is the key. Boliden's operations run on a high degree of fossil-free electricity. Due to the marginal cost pricing of electricity, European industry still pays the same price as electricity generated from coal, natural gas and oil, even if the electricity is fossil free. Our industry is unable to pass on these extra costs to our customers, which creates a competitive disadvantage for European industry compared to producers outside Europe. Furthermore, we are exposed to a significant risk of direct and indirect carbon leakage.

During the past decennia, the mining and metals industry in Europe has made a big switch of its energy usage from fossil fuel to electricity. Therefore, it has become a very electricity intensive industry, and electricity usage is expected to continue to increase significantly during the next few years. Consequently, access to fossil-free energy at competitive prices is a key for the industry to be competitive in a global market.

Most renewable energy production relies on weather conditions (sun, wind and rain) and consequently production is irregular. In contrast, electricity produced from nuclear power gives stability to the electric grid. Therefore, we need to consider nuclear power as an asset. Nuclear power should be a part of EU's transition towards a fossil-free society.

According to Eurometaux, (umbrella association representing the interests of the combined European non-ferrous metals industry), there will be large decarbonisation costs linked to the transition with regards to the electricity bill (RES surcharges, network costs, financing for capacity mechanisms, etc.). Electricity represents 30% to 45% of the overall operational costs for many European installations. The costs for financing these measures should not be put on electro-intensive companies exposed to the highest degree of international competition. If we want to encourage industrial electrification as a decarbonisation pathway, we need to first

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ensure that the industrial electrification frontrunners (Non-ferrous metals) remain here in Europe and are not driven out as a result of the impact of regulatory costs on the electricity bill.

Due to the high level of electricity use, decarbonisation of EU power production will be the most important factor in the decarbonisation of non-ferrous metal production. Despite the fact that renewable electricity is widely acknowledged as the single most important contributor to the energy transition, there is no single support scheme that could help consumers (and especially electro-intensives, who are particularly sensitive to electricity prices) to consume renewable electricity. This is a major oversight, which should be corrected.

In the long term, assuming power can be decarbonised by 2045 and renewables can be fully integrated in the grid, non-ferrous metals indirect emissions will be reduced to zero. According to Eurometaux, carbon-free electricity supply alone would imply a GHG reduction of 81% compared to 1990 levels and for the 19% remaining emissions, there are a wide range of technological options with major potential for achieving GHG reductions in line with climate-neutrality by 2050.

Boliden is worried that a lack of an effective carbon leakage protection system will undermine the international competitiveness of the European Mining and Metals industry. We think it is important to maintain and even improve industry's competitiveness and keep a level playing field between competing sectors within the EU and globally in order to avoid carbon leakage.

The Mining and Metals industry needs:

- Access to fossil-free energy at competitive prices
- Time and regulatory stability to implement the necessary low-carbon technologies. Research and innovation projects as well as trial periods are still necessary for the breakthrough technologies.
- Support scheme that can help electro-intensive consumers, who are particularly sensitive to electricity prices, to consume renewable electricity.

Other concerns

Risk of repeated audits

Paragraph 364 and 365 stipulate that for reductions granted under Section 4.11, the beneficiaries shall be subject to energy efficiency audits and one out of 3 project conditionality requirements. In recent regulation we have witnessed the implementation of similar requirements in order to have access to carbon leakage protection, like the recently adopted Indirect Costs guidelines or the free allowances conditionality requirements outlined in the Commission's proposal for a reviewed ETS

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directive as well as several pieces of legislation at national level. Within this context, we see a risk that these schemes will multiply and interfere with the industry's business cycles. To minimise this potential distortion, together with Eurometaux, Boliden propose two solutions:

1. Once an energy efficiency project is fulfilled for one of the regulations, the same project may be used to access the carbon leakage protection from other regulation. This would minimize compliance costs for eligible sectors, the risk of repeated audits in the framework of different aid schemes and increase certainty across Member States
2. To create an independent body or instrument to appeal in case of non-conformity with the audit recommendations. This would address the imbalance of power of the auditors, especially when there is a lack of knowledge of the complex production process by the auditors. Where the installation disagrees with the recommendations of the auditor, it should at least have the possibility to appeal to an independent body.

Past efforts should be considered when assessing compliance with new conditionality requirements

The draft CEEAG propose that to benefit from reductions granted under Section 4.11, the beneficiaries must be subject to energy efficiency audits and one out of three other conditionality requirements. Given the energy intensity of mining processes, the industry has a natural interest to become as energy efficient as possible. In this context, we believe that past efforts should be considered when assessing compliance with new conditionality requirements, to make sure that conditionality measures do not penalize companies that have already invested in the best available technologies.

EU Taxonomy is not suitable to use as a reference for State aid

The proposed guidelines mention that the Commission will pay particular attention to Art. 3 of the EU Taxonomy Regulation, i.e. substantial contribution criteria and 'do not significant harm' principle, when weighting the positive effects of the aid against the negative effects on competition and trade. Boliden's view at this stage, is that the added value of using the EU Taxonomy as a reference for State aid to define positive environmental benefits is highly questionable given that:

- The Taxonomy framework is still under development.
- The technical working group responsible for determining the criteria for mines and smelters to be presented to the Platform on Sustainable Finance, could not agree on suitable criteria. Therefore the mining and metals industry will not be included in the Taxonomy at the end of 2021 as planned.
- It is currently not clear how the framework will work in practice.

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For these reasons we believe that restricting the definition of positive environmental benefits to the EU taxonomy for State aid is premature and risks not reaching the intended effects (i.e. supporting the transition of the economy).

Proposed reduction of eligible sectors

Boliden is concerned about the proposed reduction of eligible sectors for electricity levies. The reasons for changing the thresholds to qualify for aid remain unclear.

The CEEAG draft proposes to limit the list of sectors under section 4.11 and included in Annex 1 of the Guidelines. Boliden agrees with AEII (The Alliance of Energy Intensive Industries) that the reduction is too sharp: from 233 to 51 sectors. We believe that the impact of such change must be properly assessed in advance. In particular, given the increasing electrification of the industrial sectors connected with their decarbonisation choices, the proposed limitation seems to be counterproductive. Electricity levies are a necessary instrument and in some cases an incentive to allow the industries implementation of their GHG reduction pathways.

Countries on the outskirts of the EU are penalized

The Nordic countries, for example, invested in fossil-free energy (water, nuclear) in the 1960-1970s, which enabled industry to expand and be competitive globally. These investments were the foundation for the relatively low cost of electricity that industry has today. If electricity costs increase markedly we will no longer be able to compete globally. Furthermore, countries on the outskirts of the EU have higher costs for transport, because we are further from central European markets. We do not want to be penalized due to our geographical location. The main thing is to create a level playing field in Europe between different techniques and regions.

Boliden`s recommendations

Separate bidding procedure needs to be set for recycling projects and immature technologies

According to the guidelines, competitive bidding (par. 48) is the default mechanism for awarding aid and setting the level of aid. Boliden agrees with Eurometaux and recommends that a separate bidding procedure is set for recycling projects, and also for immature technologies. It is important to allow the recycling business to grow; furthermore, new immature technologies need to be adequately supported and implemented as soon as possible.

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Aid for Industrial Decarbonisation – expansion to include indirect emissions (i.e. Scope 2 emissions)

Boliden agrees with Eurometaux that although it is very positive that paragraph 100 in the Guidelines allows for aid for the decarbonisation of industrial activities, the Guidelines seem to limit this to emissions that result “directly” from an industrial activity. This provision unfairly discriminates against electro-intensive industries such as non-ferrous metals which are not characterised by high levels of direct emissions but instead face significant challenges in reducing/eliminating their indirect emissions (by switching to low-carbon supply). In order to facilitate the decarbonisation of these sectors, the scope of Section 4.1 must be extended so as to also foresee the possibility of aid for the reduction of indirect emissions from industry. This is necessary in order to i) facilitate the decarbonisation of electro-intensive industries such as non-ferrous metals and ii) to enable other industrial sectors to electrify their processes, in line with the Commission’s Long-Term Strategy for a climate neutral Europe.

Therefore, any increase in ambition should be matched with reciprocal carbon leakage measures. In particular, with regards to electro-intensive industries such as the non-ferrous metals industry. It should be noted that if indirect costs are not taken into consideration it will be difficult for our sector to produce the metals required to transform Europe into the world’s first climate-neutral continent by 2050.

Minimum cumulative level of levies

Boliden agrees with Eurometaux that the introduction of a minimum cumulative level of levies per MWh is not appropriate. The cost of these levies varies significantly across Member States and the introduction of a single minimum threshold would therefore be arbitrary. The introduction of a minimum level would also represent a competitive disadvantage for European energy intensive industries.

About Boliden

Boliden is a metals company with a focus on sustainable development. Our roots are Nordic, our market global. Our core competence lies within the fields of mineral exploration, mining, smelting and metal recycling. Boliden has around 6,000 employees and an annual turnover of SEK 50 billion. Shares are listed in the Large Cap segment on NASDAQ OMX Stockholm.

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