

**HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, SCIENCE AND RESOURCES**

Inquiry into the value added to Australian raw materials

Case study on the Aluminium Industry

Supplementary Submission by the Australian Aluminium Council

Introduction

The Inquiry has already received a submission from the aluminium industry which covers the importance of the industry to the Australian economy and its contribution to value adding.

The aluminium industry has recently commissioned a study by ACIL consulting entitled ‘Australian Aluminium Industry : Contribution to the Australian Economy’. This study sets out the key indicators of the economic impact of the aluminium industry and the reasons for its success so far. A copy of the ACIL report is attached to this supplementary submission..

Key Indicators

The ACIL report shows the following :

The aluminium industry had value added (or Gross Domestic Product) of \$3.1 billion in 1997/98.

This ranked the aluminium industry amongst Australia’s leading manufacturers, of comparable size to the iron and steel, petroleum refining and meat and meat products industries.

The aluminium industry has very low import protection or other forms of assistance that have been used by Governments to promote development of other manufacturing industries in Australia..

The aluminium industry employs over 16000 people directly

Many in regional and remote areas

Well over 2000 contractors per year

Large indirect employment resulting from forward and backward linkages to others sectors of the economy.

Gross product per person employed was \$191,000 in 1997/98

Second only to petroleum refining

The aluminium industry is one of the most capital intensive in Australia

With an overall asset value of at least \$14 billion in historical cost terms

Since 1990 the industry has spent at least \$7 billion in expansions to capacity and modifications to improve operational and environmental performance

The total value of export earnings was about \$6.3 billion in 1998/99

Only \$152 million was in the form of bauxite (the raw material)

With \$2.9 billion as alumina, \$2.8 billion as aluminium metal and \$350 million as semifabricated products

In total second only to coal as an export industry for Australia, and one that adds considerable value before export

The industry also underpins domestic fabricating industries, such as shipbuilding, automotive components, packaging and building and construction applications

The industry is technologically advanced and is a world leader in technology and environmental performance

The industry is a major energy user

Accounting for 18% of total electricity consumption and about 11% of all natural gas used in Australia

These indicators confirm that the aluminium industry is a major asset for Australia and is world competitive.

Future development of the industry

The aluminium industry is competitive because it uses the natural advantages of Australia in relation to raw materials, energy infrastructure and general political and economic settings.

There is no reason why the aluminium industry should not continue to expand strongly in Australia.. This is underlined by the projects that are in the pipeline at the present time, such as:

Bauxite mining

Expansions at existing mining operations to support refining expansions listed below

Opening up of greenfield bauxite mining is unnecessary for at least ten years and probably much longer

But such greenfield deposits exist in abundance

Alumina refining

- Worsley(WA) expansion coming on stream in 2000
- Wagerup(WA) stage 3 is being actively considered and feasibility studies and approval well advanced
- QAL(Gladstone) considering major expansion (about 30%)
- Nabalco(NT) considering significant expansion (about 15%)
- Comalco greenfield project at Gladstone in feasibility stage
- One other greenfield project likely within 10 years (Probably WA or Queensland)

Aluminium smelting

- Expansions possible in NSW at both Tomago and Kurri
- Expansion possible in longer term at Portland in Victoria
- Greenfield proposal at Lithgow in NSW
- Greenfield proposal in Latrobe Valley in Victoria
- One other greenfield proposal possible

Semifabrication

- Expansions likely in extrusion capacity
- Expansion being considered in rolling capacity
- Die cast and other automotive components expansion likely, especially in energy park framework

The above possibilities illustrate the potential for this industry over the next ten years or so and they are profoundly important for the economic development of Australia, especially regional Australia. They add up to an increase in capacity for alumina and aluminium of at least 30% over the next ten years.

Some relevant issues

The Committee has identified some issues that it wishes to consider in more detail for the case study industries, of which aluminium is one. These issues are understood to include

1. Access to infrastructure in remote regions
2. Business taxation
3. Government project assistance
4. Greenhouse
5. Environmental legislation
6. Energy reforms
7. Protectionist trade policies
8. Research and development support
9. Transport systems
10. Resource licensing and permit arrangements
11. Export and investment opportunity identification
12. Marketing efforts

Some brief comments are offered on each of these matters from the aluminium industry perspective

1. Access to infrastructure in remote regions

The significance varies from project to project but it is a very significant factor in many cases. The large scale of aluminium projects and their location in regions in most cases means competitive infrastructure is vital.

This applies particularly to the availability of competitive transport and competitive supplies of energy. Some examples are the Gove project in NT, where availability of natural gas is a major issue relating to future expansion., and the high cost of coastal shipping. The aluminium industry is one of the largest users of coastal shipping, to move bauxite from Weipa to Gladstone and alumina from refineries in WA and Queensland to smelters in Victoria, NSW and Tasmania. Reforms are taking place in the coastal shipping regimes but the costs are still well above those that would apply with full international competition in most cases.

2. Business taxation

3. Government Project Assistance

The taxation reforms should be overall positive for the aluminium industry if effectively implemented. However, they still leave Australia behind many competing countries in the aluminium industry, which have lower levels of company taxation and more generous depreciation on capital investment.

In particular, the removal of accelerated depreciation is a problem, given the very large capital required for these investments and the long project life(a new potline at a smelter, for example, will run to around \$1 billion). The final impact of these changes will depend to some extent on the final settings for effective lives of major assets, which are still being considered by the Australian Taxation Office. The final significance will depend on how the Government interprets the commitment to give project specific incentives for large capital investment on a case by case basis, but this is a far less certain process than the former rules on accelerated depreciation.

In a general sense the industry would prefer to avoid the need to approach Government for project specific incentives to investment. The best approach would be for Australia to have the world's best policy settings for projects that are internationally competitive and for any unnecessary impediments that appear to be removed quickly. Project by project assistance runs the risk of distortions between projects and sectors and influence by the political process.

The implementation of the GST is also being watched closely by the industry in the hope that administrative costs will be kept to a minimum. The benefits from exemption of exports from GST will be of some value.

4. Greenhouse

The significance of greenhouse for the future of the Australian aluminium industry was covered in detail in the earlier submission and in the evidence given to the inquiry.

It must be re emphasised that the decisions of the Australian Government on greenhouse policy are of the most critical importance to the aluminium industry. The industry has

already taken major steps to reduce its direct emissions and is working with the Government to set in place a longer term strategy for further contributions that are in line with maintaining international competitiveness.

There will be major developments in industry technology that will dramatically improve energy efficiency and thus reduce greenhouse emissions per tonne of metal.. There will also be reductions in the greenhouse intensity of electricity, although the bulk of Australia's electricity will still be produced from fossil fuel for many years to come. Achievement of these advances will take longer than ten years however and there will be no global environmental benefit in destroying the Australian aluminium in the short term.

All the modelling work shows quite clearly that introduction of emissions trading could have very costly consequences for the aluminium industry in Australia unless very carefully applied.. A permit value of \$30 per tonne of CO₂, for example, would cost a smelter about \$500 per tonne of metal (current price is about \$2400 per tonne).

The aluminium industry is discussing with Government the best way in which the industry can contribute further to greenhouse gas abatement in Australia, while at the same time establishing joint programs to advance technology to achieve major energy efficiency savings in the medium to long term..

The Kyoto Protocol is seriously flawed because it doesn't include developing countries and because it doesn't recognise the greenhouse benefits of commodities such as aluminium that move in world trade. In that regard, the costs of producing the material fall entirely on the producing country (embodied energy) and the benefits in end use (light weighting of transport vehicles for example) and recycling (only 5% of primary energy) go entirely to the importing country.

However the Kyoto Protocol is likely to be ratified in some form eventually and Australia must find ways to work with it while allowing a fair and equitable contribution from industries such as aluminium. The industry will be discussing a negotiated arrangement with the Government to achieve this equity while maintaining industry competitiveness and encouraging further efficiency improvements in the medium to longer term.

5. Environmental legislation

The aluminium industry has various impacts on the environment, as will any large industrial enterprise. The industry takes its environmental responsibilities very seriously and is working constantly to achieve world's best practice in environmental performance.

The continual emergence of new environmental regulation and requirements, such as load based licensing in NSW, the National Pollutant Inventory and the national legislation in the form of the new Environment Protection and Biodiversity Conservation Act (EPBC Act) put ever increasing pressure and costs on the industry.

Without commenting on the detail of particular measures, it is important that Governments keep the requirements as efficient and cost effective as possible. In particular, duplication and inconsistencies between the Commonwealth and States are a major burden and should be kept to the absolute minimum..

The new EPBC Act does not seem to have achieved the objective of improving the efficiency of Commonwealth/State operations when it comes to environmental approval of projects.

The aluminium industry opposes the suggestion that greenhouse should be added as a trigger to that Act, as is currently being considered by the Government. Such a power would give the Commonwealth Environment Minister the statutory power to interfere in many projects that do not require such intervention and could be handled perfectly well through State processes. This would further raise the level of investor uncertainty.

6. Energy Reforms

Competitively priced energy is absolutely imperative for the aluminium industry and has been one of the foundation stones of the successful growth of the industry.

The aluminium industry supports the moves to establish competitive inter State markets for energy, especially gas and electricity. There is still some way to go in this regard and the goal should be pursued urgently.

There is a lack of direction in the national scene on energy policy. Given the importance of this commodity to the Australian economy such a national policy is needed without delay. This will help give long term confidence to investors in energy using industries like aluminium and help provide some context for other related policies such as greenhouse.

7. Protectionist trade policies

The aluminium industry faces some barriers in competing countries, both in the aluminium metal sector (especially in the EU) and in the semifabricated product area.

Australia has zero tariffs on bauxite, alumina and aluminium and Australia's competitiveness is such that there is virtually no import of these products.

There are 5% tariffs on imports of most semifabricated products (cansheet is the main exception). Countries with which Australia is competing, especially in Asia, generally have much higher tariff levels and imports to Australia from these countries are a problem.

The aluminium industry takes the view that Australia should be aiming to reduce all tariffs to zero, including those for the highly protected industries, but that this should be part of a harmonised tariff reduction process and not generally on a unilateral basis, especially for those tariffs currently at 5%.

There are also still tariffs on some major equipment and inputs to the aluminium industry. While there is some help from the Policy ByLaw arrangements and the Tariff Concession System it would be far better to remove these tariffs altogether, especially when there is no effective availability in Australia. For an industry with the capital intensity of the aluminium industry these additional costs are significant in attracting future investment.

8. Research and development

Aluminium is a high technology industry and Australia must maintain its involvement in R & D to stay competitive and to deal with the issues such as greenhouse.

It must be recognised that much of the R & D for the industry is globally based but the Australian industry has a significant role in that global R & D picture. This is especially true in the alumina sector, where Australia is the leading world player.

The future strategy the industry hopes to develop with the Government would see further R & D as a major component. This is particularly relevant in energy efficiency developments and environmental improvements.

The reduction of the taxation concession for R & D to 125% is a negative signal by the government and the aluminium industry would look for some review of R & D policy and concessions in the near future.

9. Transport systems

See comments under 1. above.

10. Resource licensing and permit arrangements

11. Export and investment opportunity identification

No comment is offered at this stage on these issues.

12. Marketing efforts

Aluminium metal is a uniform commodity sold on the basis of London metal exchange prices and thus marketing is a straight forward exercise on one level.

What is a challenge, however, is to get a better understanding in Australia of the advantages of the material and the technical knowledge needed to use aluminium.. The Australian industry is working with the global industry to improve the information flow and education facilities for designers. This may also be an aspect of the strategy being developed with the Government for the future of the industry.

Concluding comment

The aluminium industry sees value adding as one of the achievements of the industry in Australia.. The opportunity is there for further expansion in the value adding parts of the industry, especially in many regional areas of Australia. A major factor in whether that expansion is achieved is the performance of Commonwealth and State Governments to get the right policy settings to encourage the large capital investment that will be needed and which can easily go to competing countries.

The Australian Aluminium Council would be very happy to provide any further details required by the Committee.

AUSTRALIAN ALUMINIUM COUNCIL : 26 June 2000