

AUSTRALIAN ALUMINIUM COUNCIL

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INQUIRY INTO VALUE ADDING TO AUSTRALIAN RAW MATERIALS

On 22 December 1999 I sent the corrected transcript of the Hansard report of my evidence to the above inquiry.

I indicated at that time that I would provide some additional written information on questions raised by Allan Morris as soon as possible. That information is set out below.

1. R & D is often owned by an international player and can be used against our companies

In the aluminium industry R & D proceeds largely on a global basis because most of the companies involved are international companies with interests in a number of countries. The technology for production of alumina and aluminium is very expensive and highly complex and cannot be isolated to one particular country for very long if at all.

Australia is a major participant in the global aluminium industry and thus a major participant in development and use of new technology. In some cases this is developed in Australia through research programs involving both industry and research institutions and in other cases it is developed overseas.

Australia has world class research facilities in the aluminium sector, covering both the mining of bauxite and reforestation, the processing of alumina and aluminium and the metallurgical aspects of the industry. These facilities play a major part in the global development of the industry and help ensure Australia remains part of the global picture for this industry.

Some of the technological developments in Australia would be exported but at the same time many developments made overseas will be available to the Australian industry. The key issue in this industry is that Australia should be at the leading edge of global developments. That will mean we will trade in all parts of the aluminium value adding chain and be part of the latest developments in technology and innovation. It would be quite infeasible for Australia to try to develop the necessary technology advances in isolation from the global industry.

2. Public policy and corporate policy maybe in opposition, making it difficult for policy makers to attract investment.

Corporate policy in international industries such as aluminium is basically focussed on profitable operations, consistent with good environmental, human relations and social responsibilities.

Public policy should focus on the same broad values but there will be differences in some cases, depending on the particular priorities of specific Governments.

Government need to establish clear guidelines and rifles for their policy requirements. Part of that should be to create an economic climate that is internationally competitive. If these factors are fairly and clearly

established then investment in industries like aluminium will follow providing Australia is the most suitable place for that investment.

It is important to have effective industry strategies that have the support of Governments and industry, so that it is clearly understood what both sides want from an industry and what is needed to achieve that. The aluminium industry is aiming to engage with the Australian Government in 2000 to set out those parameters more clearly than has been the case in recent times.

In the end, public policy can only set the systems in place. If these are competitive then industry growth should occur. If they are not competitive then it will be very difficult to attract major investment.

3. *Lack of transparency about the industry and competing objectives, which may be against the national interest*

The aluminium industry is conscious of the need to provide as much information as possible to inform policy makers and the community about the industry and its impacts.

To assist this transparency, the aluminium industry will publish a study on the economic and social impacts of the industry in early 2000. A copy of the study will be supplied to the Committee. It is hoped this type of information can be kept up to date year by year and expanded.

Ultimately there will be some information that is commercial in confidence in any industry. In the aluminium industry this applies to individual power contracts and some other information but it is intended to keep this to a minimum.

The aluminium industry is concerned to see that matters that may weigh on the national interest are transparent. An example is transfer pricing. The industry has signed a Joint Pricing MOU with the Australian Taxation Office and the Department of Industry, Science and Resources to ensure that all necessary information is available. The ATO has made clear that as a result of these provisions the aluminium industry is classified as low risk in relation to transfer pricing.

4. *Alcoa did not produce alumina of a quality suitable for non metallurgical products until 1992, some 28 years after commencing production. What is the reason for that?*

I have consulted Alcoa on this question. In essence the reasons for the focus on smelter grade alumina (sga) rather than chemical grade alumina for a number of years are as I flagged in my evidence to the Inquiry, as follows:

- It was an appropriate business decision to concentrate on sga for a number of years, to satisfy an extraordinary long-term growth in demand. Alcoa has added its original Kwinana capacity of 200,000 tonnes 36 times in 36 years, to reach 7.3m tonnes a year of alumina.
This market was strong for much of the period through to the late 1980s and the Australian alumina production capacity was judged to be most profitably employed in supplying this rapidly growing market
- Chemical grade alumina (cga) involves some differences in the production process and substantial investment in additional equipment. This includes a need for a substantial number of storage bins to segregate product. Kwinana is the only Australian refinery that has these facilities.
- In the late 1980s and early 1990s there was less growth in the global alumina market and companies like Alcoa looked again at turning some capacity to the cga market
Although some production of cga was considered justified from about 1992, this market is smaller and much less concentrated. Quantities that can be sold are smaller and the market does not lend itself to the type of large long term contracts that are appropriate for sga.

The nature of this market and its limited size puts limits on the investment that could be justified for production of cga.

- Australian alumina companies will continue to supply the cga market when it is profitable to do so.

But under current demand patterns the cga market will continue to be very small compared to the sga market.

The report on the Economic and Social Impact of the Australian aluminium industry is not yet available but I will send a copy as soon as it is. The Chair of the inquiry indicated at the time I spoke to them that there may be a second phase that looks in more depth at particular industries and sectors. The aluminium industry would be willing to be involved in that phase of the Committee's work if the Committee so wishes.

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