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Rolled Products**  
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The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Sir/Madam

**Alcoa Rolled Australia Submission:  
Carbon Pollution Reduction Scheme (CPRS) Bill 2009**

Alcoa Australia Rolled Products (AARP) undertakes an Emissions-Intensive Trade-Exposed (EITE) activity in Australia through the operation of Australia's only aluminium rolling business and Australia's largest recycler of Aluminium. AARP operates on two sites in Western Sydney and Geelong and employs 600 people.

Being the only Aluminium rolling operation in Australia, in 2008 AARP responded with a submission in commercial confidence to the Green paper, AARP argued that for a high revenue low margin activity like aluminum rolling, emissions per million dollar revenue was not an appropriate measure and that either value add or conversion revenue was more appropriate. The Value Add criteria were included in the White paper.

However the very restrictive Value Add criteria make it very difficult for both of AARP's locations to meet the White paper's threshold. AARP's analysis shows failure to secure EITE assistance for the aluminium rolling activity would result in an unsustainable 20% reduction on Earnings Before Interest Tax and Depreciation (EBITDA), 60% EITE assistance would result in an 8% reduction on (EBITDA) and 90% assistance would lead to a 2% reduction in EBITDA.

With no EITE assistance it is inevitable AARP would move to cease operations in Australia and with 60% free permits have great difficulty surviving in a very competitive market place. Such a circumstance would be a result of AARP's activities being emission intensive, yet the details of the EITE calculation methodology failing to recognise this. AARP does not believe this is Government's intent and that the matter can readily be rectified by modifications to the EITE assistance calculation methodology.

Having actively participated in the CPRS consultation process, AARP is familiar with the potential implications of introducing the CPRS as outlined in the CPRS

White Paper, CPRS Bill (2009) and eventual Regulations. Notwithstanding the significant consultation undertaken as part of the CPRS development process, AARP believes there are a number of key changes that need to be made to the CPRS in order for it to be environmentally and economically effective in Australia. In particular these changes are necessary to ensure EITE industries do not suffer unsustainable international competitiveness reductions that will eventually lead to carbon and jobs leakage to low cost centres in other countries.

In summary the minimum changes AARP believes to be necessary are:

- EITE industries should receive a free permit allocation equivalent to at least 90% of their direct emissions obligations (including Australian aluminium rolling operations);
- The same (90% permit allocation to EITEs) principle should apply to indirect emission obligations. Alternatively, inequities in the proposed calculation of the Electricity Allocation Factor must be rectified to avoid a further 1% reduction in AARP's EBITDA;
- Erosion of EITE permits should not occur before international competitors are subject to comparable carbon costs

AARP also believes the CPRS should not be viewed in isolation from other parts of the Federal Government's climate change response strategy, such as the Expanded Renewable Energy Target (RET) In this regard AARP believes it is essential that exemptions from the very costly obligations of the expanded Renewable Energy Target (RET) be provided for the most electricity intensive EITE industries. Implementation of the RET without exemption for our industry would have a further 4% reduction on AARP's EBITDA.

In calling for these changes AARP well recognises there is an inescapable need to respond to climate change imperatives and has not shirked this challenge. The following examples illustrate our company's willingness to take voluntary action in relation to climate change:

- Globally Alcoa set an ambitious target to reduce its 1990 direct greenhouse gas emissions by 25% by 2010 – this target was reached in 2003 and we are now operating at around 36% below the 1990 benchmark.
- AARP's rolling mills have reduced direct emissions by 21% from 1990 levels.
- AARP has further reduced direct emissions by 10% since 2007 by rationalising product mix.
- AARP's use of 70,000t of recycled aluminium has 5% carbon footprint compared to the use of primary aluminium saving well over 1 million tonnes CO<sub>2</sub> depending on the source of the primary aluminium.

AARP supports the introduction of an Australian emissions trading scheme, provided it is done in a way that addresses the environmental challenge while strengthening the Australian economy and preserving the jobs and social benefits that arise from Australian export industries.

AARP appreciates the Parliament's commitment to consultation over all aspects of the CPRS and would be happy to provide additional information if required.

Yours sincerely

Gerard Waller  
Manager Business Improvement  
**Alcoa Australia Rolled Products**