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Committee Secretary
Senate Standing Committee on Economics
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Dear Mr. Hawkins

SUBMISSION: CARBON POLLUTION REDUCTION SCHEME BILL 2009

Alcoa Australia Rolled Products (AARP) undertakes an Emissions-Intensive Trade-Exposed (EITE) activity through the operation of an Australian aluminium rolling business; it is also Australia's largest recycler of aluminium.

AARP is part of Alcoa's Global Rolled Products group and operates Australia's only aluminium flat rolled products facilities at Point Henry near Geelong in Victoria and at Yennora in Western Sydney, New South Wales. The business also operates an aluminium recycling facility at Yennora.

AARP has been operating in Australia since 1965, and today produces around 175,000 tonnes of rolled aluminium each year for aluminium food and beverage cans and bottle screw caps. Around 70 per cent of AARP's rolled aluminium is exported, mainly to the growing Asian markets.

The recycling facility at Yennora is the largest of its kind in Australia and recycles around 70,000 tonnes of scrap aluminium a year, including nearly half a billion cans. Aluminium is 100 per cent recyclable, and the recycling process uses only 5 per cent of the energy needed to make prime aluminium providing significant greenhouse benefits and diverting waste from landfill.

AARP employs approximately 600 people in Australia and contributes around $80 million in direct wages to the Western Sydney and Geelong regions.
AARP curtailed the range of products it produced in 2007 due to import pressure from low cost aluminium rolling mills mainly in China. As a result, AARP closed the foil and sheet and sheet and coil operations at a cost of 200 jobs and $40m in restructuring. AARP is now focused on producing rolled can sheet (RCS) and bottle closure products.

Position on Climate Change

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 recognises there is an inescapable need to respond to climate change imperatives and has not avoided 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 70,000 tonnes of recycled aluminium has 5% carbon footprint compared to the use of primary aluminium, saving well over 1 million tonnes CO_2 depending on the source of the primary aluminium.

EITE Provisions and Alcoa Australia Rolled Operations

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 aluminium 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 was 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% (66%) EITE assistance would result in an 8% reduction on (EBITDA) and 90%(94.5%) 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%(66%) 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 fact. 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.

AARP's view is that a carbon price signal in Australia can play an important role in encouraging greenhouse gas emissions reduction and such a scheme should start soon. However it needs to be introduced with design elements that ensure the costs to Australian EITE industries will not be beyond tolerable limits at the scheme commencement or before key competitor countries adopt a comparable carbon price.

Alcoa believes there are a number of key changes that need to be made to the CPRS and RET that can find a reasonable balance and provide an incentivising carbon price signal without creating carbon and jobs leakage from the Australian aluminium industry. These changes are:

- Australian EITE industries should receive a free permit allocation equivalent to at least 90%(94.%) of their direct emissions obligations (including aluminium rolling operations);
- Erosion of EITE permits should not occur before international competitors are subject to comparable carbon costs
- Aluminium rolling should get at least 90%(94.5%) exemption from the Expanded RET and existing Mandatory RET

Renewable Energy Targets

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).

For electricity-intensive trade-exposed businesses, the RET poses the same international competitiveness challenge as an Australian carbon price. Renewable energy is available only a at much higher price than traditional power sources and because some EITE operations, such as aluminium rolling, use very large amounts of power, a mandatory requirement to purchase renewable power can be a very significant increase in the cost of production. If international competitors don't pay an equivalent additional cost, the Australian businesses can be made uncompetitive and eventually, unviable. This can then lead to business downsizing or closing -

causing carbon and jobs leakage in the same way a carbon price would - without sufficient assistance measures.

In this regard AARP believes it is essential that exemptions from the very costly obligations of the expanded RET be provided for the most electricity intensive EITE industries.
Given the potential impact on RET Exposed Trade Exposed (RATE) businesses the Government is considering providing assistance to those industries that can demonstrate “a material impact on costs as a result of the increase in electricity prices associated with the expanded RET.” Implementation of the RET without exemption for aluminium rolling would have a further 4% reduction on AARP’s EBITDA.

Trade Exposure

AARP has the only Australian aluminium rolling operation and therefore the only can sheet producer in Australia. However, because the Australia market is small, AARP relies on exports to make its operations viable.

AARP produces 175,000t of rolled aluminium products. The Australian market is 73,000 for 3 billion cans and 92,000t is exported to the booming China and SE Asian markets.
AARP is a large supplier into the Asian region which is one of the few high growth can consumption regions of the world with all major producers supplying into this market and the Australia market.

In relation to climate change most of the countries that have aluminium rolling mills have not yet adopted carbon pricing and those that have, such as the European Union, have implemented schemes that impose significantly less cost than the current Australian proposal (the Carbon Pollution Reduction Scheme (CPRS) white paper). In this regard Australia is proposing to add significant additional cost to the production of rolled aluminium (and other products) ahead of international competitors. This then creates the risk of unsustainable cost impacts that, if sufficiently high, would lead to reduced growth in Australian and eventually carbon and job leakage to lower cost centres overseas. This would lead to a reduction in Australia’s greenhouse gas emissions but not globally as there is surplus aluminium rolling capacity to cover Australia’s idle capacity.

A central flaw of the proposed CPRS is that it anticipates global action in the near future and pre-determines a reduction in the measures to maintain competitiveness of Australian industry (permit decay). This is based on the assumption that global action will occur. In forcing Australian industry to accept the risk of that action occurring, the CPRS establishes a perverse incentive for other countries not to take action.

If there was a link in the Australian scheme between the rate of global action and the relaxing of treatment of Australian industry then there would be far less investment risk for Australian industry and a clearer incentive for other countries to join the abatement effort.

Aluminium Recycling

AARP is Australia’s largest recycler of aluminium, however without the high aluminium recycled content AARP would be a marginal business; the CPRS does not recognise the contribution recycled materials have on Australia’s emissions.

With the latest recycling technology AARP could recycle 100% of Australia’s used beverage cans with 5% the carbon footprint of cans manufactured using virgin aluminium. This could be achieved with appropriate financial assistance.

Conclusion

AARP believes that the CPRS does not take into account the material impact on high revenue low margin businesses like aluminium rolling. Two thirds of the revenue is the flow through of aluminium metal purchase for our customer at London Metal Exchange prices. One third of the revenue is for the transformation into a coil of aluminium.

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

- EITE industries should receive a free permit allocation equivalent to at least 90%(94.5%) of their direct emissions obligations (including Australian aluminium rolling operations);
- The same 90%(94.5%) 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;
- 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.
- Recycled content relative contribution to the overall emission reduction target must be recognised;

AARP appreciates the Parliament's commitment to consultation over all aspects of the CPRS and would be happy to provide additional information if required, please contact Gerard Waller phone 03 52451410 email gerard.waller@alcoa.com.au

Yours sincerely

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