



Alcoa World Alumina Australia

A global alliance between
Alcoa and Alumina Limited

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Alan Cransberg
Managing Director

23 July 2009

The Secretary
Senate Standing Committee on Economics
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Parliament House
CANBERRA ACT 2600

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Alcoa of Australia's support of the Australian Aluminium Council (AAC) submission to
Senate Standing Committee on Economics' Inquiry into the Renewable Energy
(Electricity) Amendment Bill 2009 and a related bill

Dear Sir/Madam

Alcoa of Australia fully supports the submission of the **Australian Aluminium Council** to the Senate Standing Committee on Economics' Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill.

A discussion paper released by Federal Government in December 2008 recognised some activities will require assistance to ensure the Renewable Energy Targets (RET) do not cause carbon and jobs leakage. To distinguish the situation from the Emissions Intensive Trade Exposed (EITE) provisions under the Carbon Pollution Reduction Scheme (CPRS), these industries have been termed RET-Affected Trade-Exposed (RATE).

Aluminium smelters are the most exposed RATE industry because of their high reliance on purchased electricity. This certainly applies to Alcoa's two smelters at Point Henry and Portland in Victoria.

Alcoa supports the AAC's proposed amendment to the Bill that **"allows for a 90% exemption from the full RET costs for industries that are both emissions and electricity intensive"** particularly Aluminium smelting. It is essential that the Expanded RET and existing Mandatory RET are covered under this proposed amendment as the recent Council of Australian Governments (COAG) decision only supports the former and fully exposes aluminium smelting to the latter.

Given the potential impact on RATES the Government has considered 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.” However, the recent decision by COAG provided insufficient exemption from the RET to avoid very large financial impacts on the Australian aluminium smelters.

The implications on this for Alcoa’s Victorian aluminium smelters are significant, even if the price of Renewable Energy Certificates (RECs) stays below the new shortfall charge of AU\$65. For example, a REC price of only AU\$50 would expose Alcoa’s two Victorian aluminium smelters to an additional cost of production of more than AU\$17 Million in 2016 (rising to AU\$19M by 2020).

This additional AU\$17 Million is because the COAG decision provided smelting with a 90% exemption from the Expanded RET yet fully exposed aluminium smelting to the existing Mandatory Renewable Energy Target (MRET).

The COAG decision seeks to achieve some consistency with the CPRS by offering 90% and 60% exemptions for EITE facilities from the Expanded RET. However it is only ELECTRICITY-intensive trade-exposed facilities that are exposed to the financial impacts of renewable energy targets, of which aluminium smelting is an order of magnitude more exposed than other activities.

The decision potentially provides exemptions for facilities that do not need the exemption, by virtue of being emissions intensive rather than electricity intensive but fails to provide any exemption from the existing MRET for the activity most acutely exposed to financial impacts of the MRET

This inequitable impact on aluminium smelting can be easily resolved by extending the 90% exemption for aluminium smelting to the MRET.

Alcoa urges the Senate Standing Committee on Economics’ Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill, to recommend to Government that they amend the Bill in line with the AAC’s proposal, as the amendment will (as stated in the AAC submission):-

- ‘boost incentives for development of the renewable energy industry and a transition to lower emissions-intensity forms of energy.
- increase incentives for large energy users to minimise energy consumption and shift to low emissions energy sources.
- maintain the viability of Australia’s six aluminium smelters that are located in regional centres (Portland, Geelong, Hunter Valley, Tamar Valley and Gladstone) and directly employ more than 5,000 people in highly skilled and well-paid positions. Annually these smelters contribute more than \$1.2 billion to regional communities. The aluminium industry contributes more than \$5 billion to Australia’s exports each year.’

Alcoa believes there are currently four key factors that will determine whether such costs go beyond tolerable limits for our Australian operations – these are:

- the quantum of EITE assistance – Alcoa believes each of our refining, smelting and rolling businesses deserve at least 90% permit allocation;
- aspects of the Electricity Allocation Factor proposed in the CPRS white paper must be modified to ensure the CPRS does not lead to unsustainable impacts on the Victorian aluminium smelters, and the jobs they provide. This can be readily achieved by extension of the white paper's very large electricity user provision to new contracts;
- erosion of EITE permits should not occur before competitors adopt a comparable carbon cost;
- the aluminium smelting industry should be exempt from the Renewable Energy Target, due to its exceptionally high electricity intensity.

Alcoa has held many discussions on these issues over the course of this year, and much of last year, with officers of the Department of Climate Change (DCC), various Ministerial advisors and State Government representatives. These issues have also been the central points included in Alcoa's submissions to other recent Senate Inquiries with terms of reference relevant to the CPRS.

Wherever requested we have provided additional information and we are happy to continue to do so. If you would like further clarification on any of the points raised above please do not hesitate to contact me.

Yours sincerely



Alan Cransberg
Managing Director
Alcoa of Australia

Please also find attached Background information on Alcoa of Australia



ALCOA IN AUSTRALIA

alcoa ... australia's aluminium

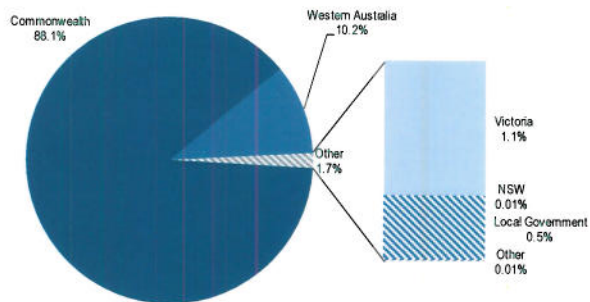
- Alcoa has been investing in Australia for over 40 years. Total investment >\$12 billion.
- Alcoa operates the world's largest integrated bauxite mining, alumina refining and aluminium smelting and rolling system in Australia.
 - Including:
 - bauxite mines and alumina refineries in Western Australia
 - aluminium smelters in Victoria
 - aluminium rolling mills and recycling plants in Victoria and NSW
 - dedicated port facilities in WA and Victoria
 - the Anglesea power station in Victoria
- Alcoa is one of Australia's leading exporters. Alcoa's operations contributed almost \$5 billion in exports in 2007.¹ Accounting for 2% of Australia's total exports.
- Alcoa produces around 47% of Australia's alumina and 30% of aluminium.
 - Alumina produced by Alcoa in WA accounts for around 11% of world demand.
- In 2007, Alcoa produced around 8.7 million tonnes of alumina, 548,000 tonnes of aluminium, 32 million tonnes of bauxite and 191,000 tonnes of aluminium rolled products.
- Alcoa is Victoria's largest exporter with \$1.6 billion in exports. Alcoa accounts for around 8% of Victoria's goods exports or 5% of total exports.
 - 70% of the aluminium produced by Alcoa in Victoria is exported.
- Alcoa is also a leading WA exporter accounting for around 5% of WA's exports.
- Alcoa makes a significant contribution to the Australian economy. Around 80 cents in every export dollar earned by Alcoa stays in Australia.
- Alcoa distributed almost \$3.5 billion in Australia in 2007, including on wages, local suppliers, royalties, taxes, rates and dividends.
 - \$1.7 billion in Western Australia
 - \$840 million in Victoria
 - \$303 million in NSW

¹ Includes all export production from the Portland and Point Henry smelters, including partner metal



australia's aluminium

- Every year Alcoa contributes almost \$1 billion to Federal, State and Local government revenues.



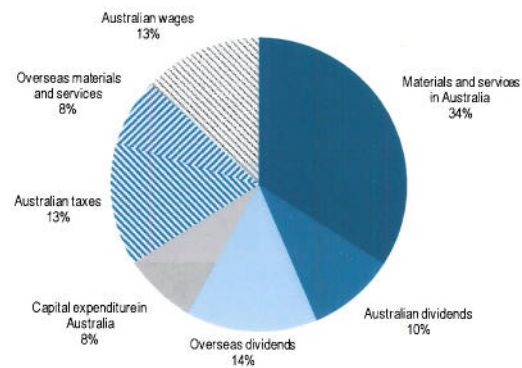
Contribution to government revenues

- Alcoa is a major employer – >6000 employees predominantly in regional Australia.
 - Women = 11% of our workforce – representing 13% professional positions and 15% management positions.
- Alcoa provides an additional \$8 million a year for community-based apprentices and trainees. \$2.1 million spent on youth and community-based training programs – directly affects more than 20,000 young lives across Australia.
- 5% of payroll spent on training – double the national average of 2.5%. Alcoa invests \$22 million per year on training in Australia:
 - \$12 million on general training,
 - \$7.5 million on apprentice training - 140 apprentices across Australia
 - \$500,000 on traineeships.
- Alcoa has trained >1500 tradespeople through apprentice program.
 - In today's dollars Alcoa's apprentice training represents >\$300 million investment.
- Alcoa provides around \$6 million each year in sponsorships and partnerships to help build stronger communities.
- In 2007 Alcoa Inc was once again named one of world's most sustainable corporations at the World Economic Forum in Davos, Switzerland. Alcoa has attained the sustainability ranking every year since the Global 100 was launched in 2005.
- In 2008 Alcoa was once again selected as one of the top 10 leading multinational companies in the Covalence Ethical Ranking – a barometer of how companies are perceived in the ethics field. Alcoa ranked first in the mining/metals sector and has been in the top 10 among all companies since the independent ranking began in 2005.



australia's aluminium

- In 2009 Alcoa was named number 1 in the metals category of Fortune 500s World's Most Admired Companies – this is up from its number 4 place in 2008.
- In 2007, Alcoa of Australia's had \$4.49 billion in revenue and \$1.18 billion in net profit.
 - Export sales made up 88% and domestic sales 12% of total revenue.
- Alcoa of Australia paid fully franked dividends >\$1 billion in 2007 to its two shareholders Alcoa Inc and Alumina Limited.



Distribution of revenue

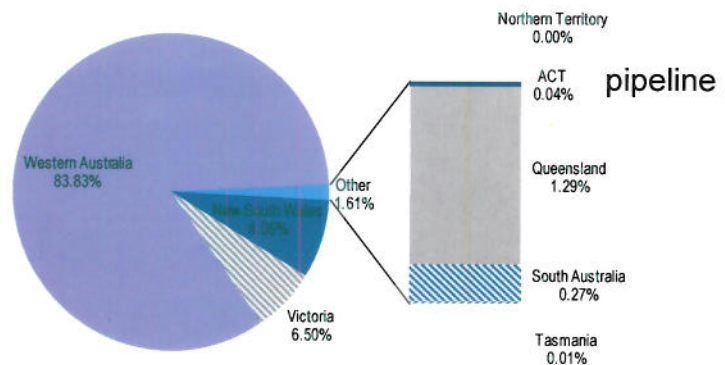
- Alcoa's spending in Australia is across a wide range of industries. >80% is spent in:
 - 33% electricity, gas and water supply
 - 31% manufacturing
 - 18% finance and insurance, communications infrastructure, property and business services.

Alcoa in Western Australia

- Western Australia is home to the largest integrated alumina refining system in the world and the State is a critical part of the global aluminium industry producing 15% of global alumina.
- Alcoa's operations in Western Australia include:
 - alumina refineries at Pinjarra, Kwinana and Wagerup
 - bauxite mines at Huntly and Willowdale
 - dedicated port facilities at Bunbury and Kwinana
- Alumina is Western Australia's 7th most valuable export item – >\$3 billion. It is the State's 5th most valuable mineral/petroleum export.
- Alcoa is one of WA's leading exporters, accounting for around 5% of WA's exports.
- 84% of Alcoa's total Australian expenditure is incurred in WA. >\$1 billion to WA Government including \$62 million in royalties.

- In total, Alcoa spent >\$1.6 billion on local Western Australian suppliers, wages and salaries in 2007.

- Alcoa has invested billions in WA rail, and port infrastructure. Asset replacement in Australia = >\$20billion



Alcoa's spending by State

- Alcoa owns 20% of the Dampier Bunbury Pipeline which supplies natural gas to households and industry in the South West of WA.
 - Also a major investor and joint venture partner in gas exploration and domestic gas industry - >\$40 million.
- Alcoa produced 8.7 million tonnes of alumina in WA in 2007. This represents:
 - 70% of WA's alumina production,
 - 47% of Australia's total alumina production, and
 - 7% of total world supply.
- Alcoa exports its entire alumina production which represents 62% of Western Australia's alumina. 11% is sent directly to Alcoa's smelter operations in Victoria with 89% exported globally.
- 22% of Alcoa's global alumina production is exported to Alcoa's operations with 59% exported to non-Alcoa customers. (The remaining 19% is on-sold through a third party).
- Alcoa employs almost 4500 people in Western Australia - 76% of Alcoa's Australian workforce.
- Alcoa spent over \$568 million on salaries in WA in 2007.
- Trained over 1100 Western Australian tradespeople through apprentice program –
 - In today's dollars Alcoa's apprentice training represents >\$300 million investment.



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Alcoa in Victoria and NSW

- Alcoa's operations in Victoria and NSW are a critical part of Australia's value-added aluminium industry producing 30% of the country's aluminium.
- Alcoa is Victoria's largest exporter and accounts for around 8% of Victoria's goods exports.
- Every year Alcoa injects \$476 million into the Victorian economy.
- Alcoa's operations in Victoria and New South Wales include:
 - aluminium smelters at Portland and Point Henry in Victoria
 - aluminium rolling mills at Point Henry in Victoria and Yennora in NSW
 - aluminium recycling facility at Yennora in NSW
 - the Anglesea power station
- Alcoa Australia Rolled Products is a major value-adder and operates aluminium rolling mills at Point Henry in Victoria and Yennora in NSW, and an aluminium recycling facility in Yennora.
- Alcoa is the only manufacturer of aluminium rolled products in Australia and produces rigid container sheet for beverage cans and wine screw tops.
- Alcoa produced around 191,000 tonnes of rolled product in 2007. Over 50% is exported.
- Alcoa supplies major value-adding industries in Australia. Downstream customers include Amcor, Visy and Auscap.
- Alcoa is the largest recycler of aluminium in Australia and recycles around 70,000 tonnes of aluminium at Yennora.
- Alcoa has been a major contributor to the infrastructure of Victoria since it started operations in 1961.
 - Alcoa's aluminium smelters in Victoria provided the necessary base load demand to support the development of the Loy Yang power generation complex.
 - The Portland Aluminium smelter was the catalyst for the construction of a high voltage line from Geelong to Portland, thus providing an interstate interconnector between Victoria and South Australia.
 - Connecting South Australia to the Victorian grid has enabled South Australians to access a more stable and reliable power supply.
- Alcoa operates the Anglesea power station near Geelong which has a capacity of 160 megawatts.



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- Alcoa employs around 2000 people at its aluminium smelting and rolling operations in Victoria.
- Alcoa employs around 220 people at its aluminium rolling and recycling operations in New South Wales.

ends