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News release

Contact Clive Hamilton (02) 6249 6221 (bh) or 0413 993 223 (mob.)
Hal Turton (02) 6249 6221 (bh) or 0417 465 661 (ah)

Public subsidies to biggest polluters

Australian consumers are subsidising some of the nation's biggest polluters to the tune of more than \$200 million a year according to a new report released by The Australia Institute.

The Aluminium Smelting Industry by Institute Research Fellow Hal Turton examines the structure, market power and greenhouse gas emissions of an industry that enjoys subsidies from the Australian public of at least \$210 million a year and probably in excess of \$250 million from reduced electricity charges.

In addition, the report shows the industry receives an environmental subsidy of close to \$270 million because it does not pay for its greenhouse gas emissions.

Releasing the report today, Institute Director Dr Clive Hamilton said the study is a landmark exposure of the extent of corporate welfare for the aluminium industry which accounts for 6% of Australia's total greenhouse gas emissions.

"Hal Turton's report exposes the generous subsidies Australia is giving to its six foreign-owned aluminium smelters," Dr Hamilton said. "Subsidies in the form of cheap electricity amount to \$40,000 per smelter employee, which of course is paid for by the ordinary consumer."

Dr Hamilton said the report reveals that Australia's smelters produce two and a half times the world average of greenhouse gases per tonne of aluminium produced.

He said the report showed that the industry's repeated threats to go offshore if Australia imposed more stringent greenhouse gas abatement policies were hollow.

"However, if the industry were to relocate, the global environment would benefit," he said. "Because Australian production is so greenhouse gas intensive, relocation to other parts of the world, where the smelters are not so reliant on coal-fired power stations, would reduce global emissions considerably.

"The Australian economy would benefit, too, because the financial subsidies to the industry, which are currently distorting investment allocation decisions, would be removed."

The report says that the subsidies received by the aluminium industry in Australia could be actionable under World Trade Organisation rules.

Questions and answers on The Australia Institute's report on the aluminium smelting industry

Aren't there good reasons for aluminium smelters receiving cheaper electricity than other big customers in a competitive market?

The prices paid by most smelters in Australia are far below those that would apply in a competitive market, even taking into account the advantages smelters offer electricity generators. For example, in Victoria, the State Electricity Commission obtains cheap electricity through a contract with the owner of Loy Yang B, but is expecting to lose \$110 million this year on-selling this electricity to the Portland and Point Henry smelters. In Queensland, the Goss Government sold the Gladstone Power Station to a consortium led by Comalco (owner of the Boyne Island smelter) at a \$400 million discount.

Aren't subsidies justified by the jobs the industry generates in regional Australia?

Subsidies to aluminium smelting amount to more than \$40,000 for every job, an extremely expensive form of regional employment creation. The same level of subsidies could create many times more jobs in other industries, such as renewable energy. Ansett alone employed almost three times as many people as the entire aluminium smelting industry. The aluminium smelting industry in Australia is almost 80 per cent foreign-owned, so investment decisions are made overseas with little regard for the interests of Australian employees.

Won't removing subsidies or implementing greenhouse policies that increase electricity prices drive new investment offshore to developing countries that don't have greenhouse gas abatement targets under the Kyoto Protocol?

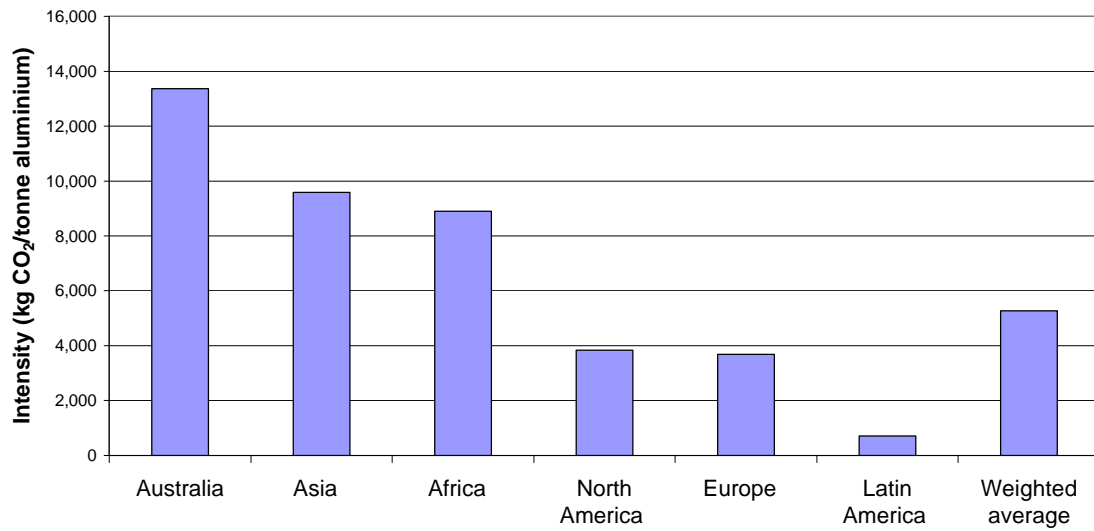
Australia will remain a highly attractive place for the aluminium smelting industry. As the industry's own consultants argue, Australia has abundant raw materials, reliable supplies of cheap and high-quality alumina, low transport costs, technological sophistication, well-developed infrastructure, and economic and political stability. No developing countries can match these attributes. Moreover, it is widely understood that developing countries too will have to commit themselves to cutting their greenhouse gas emissions within a decade.

Recent investment decisions suggest the aluminium industry's threats to go offshore are bluff. Plans are well advanced to build a new smelter in Queensland and to expand production at existing smelters in NSW and Queensland.

Because Australian smelters are among the most energy-efficient in the world, won't a decision by the industry to shift offshore result in 'carbon leakage' with an increase in global greenhouse gas emissions?

The chart on the following page (from the Institute's report) shows that Australia's smelting industry is the most greenhouse gas intensive of any region in the world. Although Australian smelters consume slightly less energy than smelters in other regions (because they are newer and larger), they are powered almost entirely from coal, which is the most greenhouse gas intensive fuel available. In the rest of the world, greenhouse gas emissions per tonne of aluminium produced are less than half those in Australia because of a greater reliance on hydro, gas and nuclear electricity.

Aluminium smelter greenhouse gas emissions from electricity use



Source: Derived from International Aluminium Institute, Electrical Power Used in Primary Aluminium Production (2000); Intergovernmental Panel on Climate Change, Revised 1996 IPCC guidelines for national greenhouse gas inventories: workbook, Volume 2 (1997).