

Embargoed: Not for release until 0001hrs Thursday, November 11, 1999

Contact: Clive Hamilton (02) 6249-6221 0413 993 223
Stuart Gardiner (02) 9959-3509

Massive Subsidies Make Aluminium Smelting an Economic Liability, Says New Study

The aluminium smelting industry is so heavily subsidised that its departure would result in a net economic benefit to Australia, says a new study by the policy research centre, The Australia Institute.

The subsidies are in the form of exceptionally cheap electricity prices and the uncompensated costs of greenhouse gas emissions.

“These subsidies are almost certainly in breach of the provisions of the General Agreement on Tariffs and Trade if anyone were to challenge them at the World Trade Organisation,” says the study.

The Aluminium Industry and Climate Change was prepared following requests by the Australian Aluminium Council (AAC) to have the burden of cutting greenhouse emissions placed on other sectors of the economy. In the course of its lobbying of Federal Government, the AAC has threatened that the industry would close its Australian smelters and move offshore if it were forced to pay higher prices for electricity.

The paper observes that 79 per cent of aluminium metal (i.e. smelted aluminium) was exported in 1998 valued at some \$2.8 billion. The industry employed 5350 people (1995/96) with an average annual wage of \$41,200.

Overall 59 per cent of the industry is foreign owned, with Japanese (17 per cent), British (14 per cent) and US (12 per cent) interests dominant. The level of control is substantially higher.

The prices paid for electricity by aluminium smelters are set in long-term contracts and kept secret. However, the general belief in the electricity industry is that smelters pay between 1.5 and 2.5 cents per kilowatt hour (kWh) for electricity, compared with 5-6 cents per kWh by other large industrial users. Figures released by the Victorian Auditor-General in relation to the smelters at Portland and Point Henry confirm a price advantage of 2 cents per kWh.

On the basis of all available evidence, therefore, the electricity subsidy to the smelters amounts to \$410 million annually.

The industry is also responsible for emitting 28.5 million tonnes of greenhouse gases annually – some 6.5 per cent of Australia’s total emissions (excluding land clearing) – and its failure to pay for the costs of this pollution amounts to an additional subsidy.

At a conservative price for an emission permit of \$15 per tonne of CO₂ this additional subsidy amounts to \$430 million annually.

The subsidies to aluminium smelting – in absolute terms and per employee – are set out in the table.

Subsidy	Amount	Per employee
Financial subsidy from underpriced electricity	\$410 m	\$76,600
Uncompensated costs of greenhouse gas emissions	\$430 m	\$80,400
Total subsidy	\$840 m	\$157,000

The study says: “If the aluminium smelters carried through with their threat to shift out of Australia in response to the introduction of greenhouse gas abatement policies, the analysis indicates that their departure would result in a net economic benefit.

“Every dollar of income from aluminium exports has a resource cost of \$1.24.

“Through industry development programs and wage subsidies, the \$410 million in direct financial subsidies, if freed up, could be used to provide more jobs than are currently provided by the industry. Indeed, all of the industry’s employees could be paid \$70,000 to stay at home and funds would be left over.

“By saving nearly 30 million tonnes in greenhouse gas emissions per year the departure of the industry would make it easier for Australia to meet its Kyoto target by freeing up a large tranche of emissions for other, unsubsidised sectors.

“These large subsidies are almost certainly contrary to the provisions of the General Agreement on Tariffs and Trade. If the Australian Government were to mount a challenge on behalf of taxpayers and electricity consumers, a favourable ruling may provide legal grounds for State governments to escape from their onerous contracts with the smelters.”

ENDS