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Queensland Productivity Commission  
PO Box 12112  
George St QLD 4003  
Email submission to: [www.qpc.qld.gov.au](http://www.qpc.qld.gov.au)

10 January 2017

Dear Commissioner

**RE: MANUFACTURING IN QUEENSLAND INQUIRY**

Rio Tinto welcomes the opportunity to make a submission to the Queensland Productivity Commission (the Commission) on its Issues Paper – Manufacturing in Queensland issued on 9 November 2016.

The Commission has been asked to identify policy options that would improve the productivity and competitiveness of the manufacturing sector in Queensland and is seeking to understand the factors contributing to its decline.

Rio Tinto has significant manufacturing interests in alumina refining and aluminium smelting in Central Queensland through its ownership of 59 per cent of Boyne Smelters Ltd (BSL), 100 per cent of Yarwun alumina refinery (Yarwun) and 80 per cent of Queensland Alumina Limited (QAL). BSL and Yarwun are also operated by Rio Tinto.

Our refining and smelting operations have contributed to the Queensland economy for over 40 years. Global demand for aluminium continues to grow strongly given the commodity's excellent attributes for a carbon-constrained world and so our operations have the potential to continue adding value to Queensland for many years to come.

However, the aluminium industry is highly energy intensive, particularly in the use of electricity for smelting aluminium where the cost of power is the primary differentiator in the international competitiveness of a smelter, but also in the use of energy to refine bauxite into alumina.

Queensland has a long history of industrial manufacturing of its natural resources underpinned by access to competitively priced, reliable energy, especially electricity. But this is now under serious threat. Queensland electricity prices have increased significantly in recent years and domestic gas has become difficult to access onshore at prices that even match export parity.

In our submission of 11 March 2016 to the Commission's Electricity Pricing inquiry – draft report dated 3 February 2016, Pacific Aluminium, Rio Tinto's division that manages BSL, expressed concern about the increasing cost of electricity in Queensland. We noted at that time that the Commission's modelling consultants predicted that BSL would close in 2029. This implies an expectation that the smelter would not be able to achieve international competitiveness at the end of its current electricity arrangements due to the cost of electricity in Queensland. This is despite the smelter being world class now and with the potential to remain so in every respect other than electricity price, and with the longer-term outlook for the global aluminium market being positive. Since the date of our submission, the increase in electricity prices in Queensland has accelerated and Queensland has maintained its unenviable position as the highest cost state for electricity on the eastern seaboard, as the attached graph shows.

Rio Tinto also has a keen interest in having a well-functioning, sustainable and cost-competitive domestic gas market, and made a submission on the Queensland Government's Queensland gas supply and demand action plan – November 2016 Discussion Paper on 14 December 2016, attached.

While Queensland continues to experience increasing energy costs other countries, including the U.S. and a number of European countries have experienced the opposite trend in recent years, compounding the negative impact on the international competitiveness of Queensland's manufacturing sector.

For the future of the aluminium industry in Queensland, the importance of access to competitive power and gas is paramount. While aluminium is one example, much of manufacturing is relatively energy intensive. Therefore the loss of Queensland's international competitive advantage in domestic energy makes it a less attractive destination for capital for manufacturing industry development.

It takes many years, if not decades, to establish a new manufacturing industry, so the priority should be on alleviating the domestic pressures on existing manufacturing to ensure retention of the accompanying skills, infrastructure and ongoing capital investment that bring benefits to the Queensland economy.

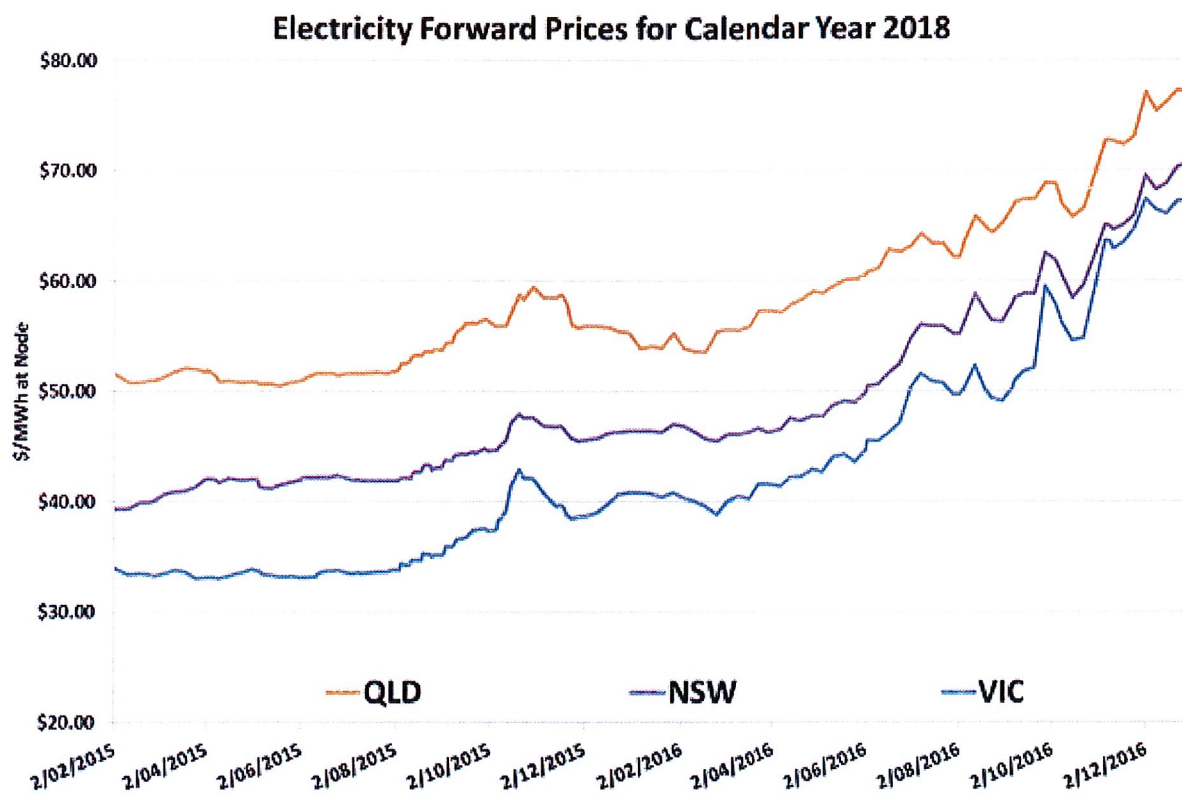
If you have any questions regarding this submission, please contact Lesley Silverwood at [lesley.silverwood@pacificaluminium.com.au](mailto:lesley.silverwood@pacificaluminium.com.au)

Yours sincerely

A handwritten signature in blue ink, appearing to read 'B. Cox'.

**Bruce Cox**  
Managing Director  
Rio Tinto Aluminium - Pacific Operations

## Attachment 1 – Graph of electricity forward prices for 2018



## Attachment 2 – Submission on Queensland gas consultation

Rio Tinto's submission to Department of Natural Resources and Mines, *Queensland gas supply and demand action plan – November 2016 Discussion Paper*, 14 December 2016.

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Queensland gas supply and demand discussion paper  
Department of Natural Resources and Mines  
PO Box 15216  
City East QLD 4002  
Email submission to: [gasactionplan@dnrm.qld.gov.au](mailto:gasactionplan@dnrm.qld.gov.au)

14 December 2016

Dear Sir/Madam,

**Re: Queensland gas supply and demand discussion paper**

Rio Tinto is pleased to have the opportunity to make a submission to the *Queensland gas supply and demand action plan – November 2016 Discussion Paper*.

As an energy-intensive business using significant quantities of gas and electricity in its Queensland alumina refining and aluminium smelting operations, Rio Tinto has a keen interest in having a functioning, sustainable and cost competitive domestic gas market.

Rio Tinto welcomes the commitment of the Queensland Government to developing a strategy for the responsible expansion of the gas sector with core objectives to improve the sector's social licence to operate and decrease the barriers to supply. This is the right focus for the strategy to, as the Foreword from the Ministers suggests, enable the Queensland domestic gas industry to "supply households and business users in sufficient quantities at affordable prices". It is important that Queensland's world class gas resource is available to underpin jobs and economic growth within Queensland as well as LNG exports.

During the development of Queensland's LNG industry access to gas has been highly conditional, short term and often at a premium to LNG netback pricing. As a significant gas user Rio Tinto welcomes actions that increase supply and lower gas prices. As a significant electricity user, Rio Tinto also similarly welcomes these actions as they have flow-on consequences for Queensland's electricity prices, particularly when the role of gas as a transition fuel is considered in the progressive shift to lower emissions electricity.

While we recognise that the reform measures outlined in the Discussion Paper are not Government policy, Rio Tinto supports the introduction of those reform measures that seek to increase gas supply. As data compiled by DNRM shows, the regulatory cost for gas producers in Queensland is both significant and front-loaded. Lowering these costs reduces the cost of gas production with flow-on benefits for gas producers and gas consumers. Rio Tinto supports a focus on those reforms that seek more efficient and effective regulation to reduce the regulatory burden on gas producers and materially reduce compliance costs while seeking to enhance the sector's social licence.

Given the complexity and cost of accessing gas transmission infrastructure in Queensland, Rio Tinto also supports all efforts both within a Queensland context and in conjunction with COAG to improve this situation.

We would welcome the opportunity to discuss this further with you. If you have any questions in the interim please contact Daniel Woodfield ([Daniel.Woodfield@riotinto.com](mailto:Daniel.Woodfield@riotinto.com)).

Yours sincerely



**Bruce Cox**  
Managing Director  
Rio Tinto Aluminium - Pacific Operations