

# The Treasury

## New Zealand Aluminium Smelters (NZAS) Information Release

September 2013

### Release Document

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Reference: T2013/801

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**THE TREASURY**

Kaitohutohu Kaupapa Rawa

Date: 27 March 2013

To:

Prime Minister  
(Rt Hon John Key)

Minister of Finance  
(Hon Bill English)

Associate Minister of Finance  
(Hon Steven Joyce)

Minister for State Owned Enterprises  
(Hon Tony Ryall)

## **Aide Memoire: Talking points for phone call by the Prime Minister to Rio Tinto, 27 March 2013**

### **Call details**

3.15pm, 27 March. Dial: [1]

### **Participants**

Likely to be:

- David Peever, Chief Executive, Rio Tinto Australasia
- Sandeep Biswas, Chief Executive, Pacific Aluminium

### **Pacific Aluminium's objectives**

Pacific Aluminium is seeking subsidies for the smelter over 18 years to make it economic at all aluminium prices above [2,6,7]

### **State of play**

Relative to the current contract, Meridian informs us it has put [2,5,6,7] on the table over the first four years and [2,5,6,7] over years 5-18. It maintains this is its bottom line.

Pacific Aluminium is seeking an additional [2,5,6,7] over the entire contract. The gap over the first four years is [2,5,6,7] per annum [2,5,6,7]

[2,5,6,7] Meridian does not believe this gap to be bridgeable and therefore believes it has a disclosure obligation. It is prepared to hold off on this

disclosure obligation because the Crown has entered the negotiations, which may change the field of play (not because the Crown has told it to hold off).

### **Government's rationale for intervention**

The Government has no interest in subsidising a business that is uneconomic in the long term.

But a rapid exit of the smelter would:

- Disrupt the Southland economy with a large number of job losses
- Disrupt the electricity market [2,4,5,6,7]
- 
- 

The government has an interest in avoiding this short term disruption [2,4,5,6,7]

### **The carrot**

If Rio/Pacific Aluminium is prepared to:

- Enter into a medium term contract,[2,5,6,7]
- And if Rio and Sumitomo will provide parental guarantees for the new contract

Then:

- The Crown will instruct officials to find ways to bridge some of the gap on price between the parties. The Crown understands the gap is [2,5,6,7]per annum in the first four years.

This deal would need to be agreed at a high level today and executed within a few days. Officials are available immediately and Meridian is available from Friday.

### **The stick**

[2,4,5,6,7]

[2,4,5,6,7]

### **Bottom lines**

[5,6]

### **Plan B**

Plan B is to allow the commercial discussions between Meridian and Pacific Aluminium to take their course, wherever that may lead, and for the Government to make appropriate disclosures about this in the MRP offer document.

*Feedback from call between Treasury and Sandeep Biswas at c11.30pm on Tuesday (i.e. after the meeting with Ministers)*

Biswas [2,5,6,7]

put transmission pricing on the table. We have previously advised Pacific Aluminium that this is off the table for the Crown, which is where it needs to remain. Pacific Aluminium can take this up with the Electricity Authority and Transpower.

### **Key facts**

NZAS current contract price of [2,5,6,7] is the lowest industrial price in NZ. It is well below the average wholesale price of c8-10c/kwh, and retail prices of >20c/kwh. Pacific Aluminium is seeking prices in the region of [2,5,6,7]

### **Next steps**

Pacific Aluminium, Meridian and Treasury meet Wednesday/Thursday to explore finalising a deal along these lines.

[2,5,6,7]

## Summary talking points

- We are not prepared to subsidise the smelter in the long term.
- We are prepared to help bridge the gap between Meridian and Pacific Aluminium in the short term [4,5,6] as this will have benefits for the Southland economy, the electricity market, [4,5,6]
- We are asking Rio to consider engaging with Meridian for a [2,4,5,6,7] and a parental guarantee from Rio and Sumitomo, based on the Meridian [2,4,5,6,7] proposal currently on the table.
- In return will look to bridge some of the [2,5,6,7] gap between Meridian and Pacific Aluminium over this period.
- If this deal is not acceptable, we expect Rio to stand behind its subsidiary and for NZAS to honour its existing contract with Meridian and its remediation obligations. [4,5,6]
- If this deal is not acceptable, we will need to disclose all appropriate risks, including the termination provisions and lack of parental guarantee, in the MRP offer document and proceed with the float.

## Attachments

*Differences between Pacific Aluminium and Meridian negotiating positions.*

**Chris White**, Manager, Commercial Transactions, 890 7256, [1]

**John Crawford**, Deputy Secretary, Commercial Transactions, 917 6985, [1]