

The Treasury

New Zealand Aluminium Smelters (NZAS) Information Release

September 2013

Release Document

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
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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.



THE TREASURY

Kaitohutohu Kaupapa Rawa

Reference: T2013/1507

SE-1-3-14

Date: 10 June 2013

To: Minister of Finance
(Hon Bill English)

Associate Minister of Finance
(Hon Steven Joyce)

Minister for State Owned Enterprises
(Hon Tony Ryall)

Deadline: None
(if any)

Aide Memoire: Tiwai Point Smelter Negotiations

This Aide Memoire updates you on the most recent developments in Meridian's negotiations with Pacific Aluminium on the future of the New Zealand Aluminium Smelter (NZAS).

Heads of Agreement

The parties have now reached a heads of agreement that is subject to the approval of Meridian's board (which has now been given) and the parent companies of NZAS, Rio Tinto and Sumitomo. This approval is still outstanding, and is timetabled to be received this week though Meridian indicate that there are some potentially worrying signs on the level of engagement from the parent companies.

The key points of this agreement are as follows:

- A lower price for electricity consumed by the smelter, which is to be pegged to the aluminium price on the London Metal Exchange during the first period of the contract. The lowest rate is ^[2,5,6,7] when the Aluminium price is below ^[2,5,6,7]. This compares to ^[2,5,6,7] under the existing contract.
- The establishment of contract periods with changes in volume, price and guarantee obligations occurring in the second period (from either ^[2,5,6] - to be agreed by both parties prior to the agreement being finalised).

¹ The current aluminium price is approximately \$NZ 2,480 a tonne at today's exchange rate

- A guarantee over the first period by NZAS parent companies Rio Tinto and Sumitomo. The guarantee moves to Pacific Aluminium in the second period in most circumstances.
- A “Discriminatory Government Actions” clause that allows NZAS to terminate the agreement with 12 months notice if the New Zealand Government passes discriminatory legislation aimed at the Tiwai Point Aluminium Smelter that is likely to cause immediate and material financial harm^[4]

The parties note that there are a number of issues that require further discussion. These are progressively being resolved, such as the recent agreement on creditworthiness measures to apply to Pacific Aluminium in the second guarantee period. The most significant issue still outstanding is:

- NZX prudential support. The parties have agree to work together to establish whether a mechanism can be put in place to reduce NZAS’s collateral obligations under the market settlement regime,^[2,4,5,6,7]

Likely approach to the Crown

Assuming approval in principle to this agreement by the Rio Tinto and Sumitomo board we expect Pacific Aluminium will approach the Crown to seek further support for the agreement. The heads of agreement contains a reference to their intention by acknowledging that “the owners of NZAS will pursue other options in parallel with this proposal to achieve an overall cost of delivered electricity that restores the smelter to viability”.

We think that Pacific Aluminium is likely to seek support from the Crown in the following ways:

- Support to bridge the gap from the price that they ended at with Meridian^[2,5,6,7] and their desired price of^[2,5,6,7] This is likely to build off the offer that the Crown made to Rio Tinto in late March.
- Relief from transmission pricing. This is a significant cost for the smelter and a source of contention. Treasury recommends against any support in this area as it would lead to significant regulatory challenges.

Treasury’s view remains that Ministers should not offer a subsidy to secure the ongoing viability of the smelter.^[2,4,5,6]

[2,4,5,6]
relected by Rio Tinto.^[4]

Ministers' offer of a short term subsidy was

[4]

[2,4,5,6]

[2,5,6]

[4]

[2,4,5,6,7]

