

§ 22

**From:** Fraser, John (Secretary)  
**Sent:** Thursday, 15 December 2016 7:23 PM  
**To:** Dunn, Damien  
**Cc:** FG IIED Industries and Communications Unit; Brennan, Michael; § 22  
**Subject:** Re: Alcoa update [~~SEC=PROTECTED, DLM=Sensitive:Cabinet~~]

Damien

Thanks and all rather foreboding

John

On 15 Dec 2016, at 5:48 PM, Dunn, Damien <[Damien.Dunn@TREASURY.GOV.AU](mailto:Damien.Dunn@TREASURY.GOV.AU)> wrote:

Secretary

- The Alcoa Portland aluminium smelter had an electricity disruption of 5½ hours (1 Dec) which caused the aluminium in production to solidify.
- Additionally, the smelter is facing a rise in power costs by about \$50 million to \$90 million, as a Victorian government electricity subsidy is removed and the new power contract starts with AGL.
- § 34(3)
- The Victorian government is looking to waive the fixed line transmission charges to the smelter worth **\$40 million** over the next 4 ½ years.
- It is likely that these agreements will **only keep the plant going for the next 4-5 years**, as forecast energy prices are likely to rise in Victoria and Alcoa remains in the red.
- What is behind the strategy to buy 4 to 5 years of plant operations? Dept of Industry states that "it allows Alcoa time to move over to renewable energy sources which could have a lower long-run electricity cost."
- We are expecting a pre-Xmas announcement, though this is conditional on the New York board meeting accepting the Government's offer.
- Alcoa Portland smelter employs 500 people directly, and 250 contractors. Its 4 ½ hrs from Melbourne.

I will provide further updates when they become available.

Regards

Damien

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**Damien Dunn**  
a/g Division Head  
Industries, Infrastructure and Environment Division  
The Treasury, Langton Crescent, Parkes ACT 2600

W: +61 2 6263 4347 M: s 22  
E: [damien.dunn@treasury.gov.au](mailto:damien.dunn@treasury.gov.au)

s 22

**From:** Dunn, Damien  
**Sent:** Tuesday, 20 December 2016 12:33 PM  
**To:** s 22 s 22 s 22  
**Cc:** Brennan, Michael  
**Subject:** FW: Alcoa [DLM=For-Official-Use-Only]  
**Attachments:** Alcoa Funding Agreement conditions v2.docx

s 22 - with s 22 away, can you look Alcoa.

The office may require urgent advice by cob or tomorrow. Will keep informed.

thanks

Damien

s 22

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**From:** s 22  
**Sent:** Tuesday, 20 December 2016 4:20 PM  
**To:** s 22  
**Subject:** RE: Alcoa [DLM=For-Official-Use-Only]

Haaaaaaaaa and yes, indeed he does.

Apparently Hunt is in NYC with Alcoa and is pitching the \$30m to them. Industry has reported that Alcoa would prefer the \$30m to be provided via a loan which would be 'forgiven' if they don't close by 2021, while Government prefers a grant. Reason for Alcoa's preference is that they can allegedly deduct their interest costs, so it is more favourable for them. I'm not sure that interest which you know you will never pay ought to be deductible,

DIIS said this had been discussed with the Treasurer, Damien suspected otherwise and called "s 22" to check. s 22 hadn't heard anything about it and was going to make some enquiries. Damien asked s 22 to let us know what they need when s 22 finds out some more and has flagged to me that we might need to make a call on whether we prefer a grant or a loan. s 22

Haven't heard anything since, but my preliminary thoughts are that assuming that an actual loan to be repaid is off the table, a grant is preferable. The main reason being that a loan which is made without a reasonable expectation that it will be repaid will be classified as a grant on the Government's books anyway. A grant is also more transparent, administratively simpler and the justification for allowing interest payments which will realistically never be made to be tax deductible is questionable.

Your thoughts?

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**From:** s 22  
**Sent:** Tuesday, 20 December 2016 5:04 PM  
**To:** Flavel, Matthew  
**Cc:** Dunn, Damien; s 22 Brennan, Michael; s 22 s 22  
**Subject:** Re: Alcoa [DLM=For-Official-Use-Only]

Failing that, if there is an NPP attached to it, the Financial Risk offset might assist - surely the timing of the default is day 1 (and not beyond the forwards) if it is a 'loan' in name only for four years.

Might want to check with Revenue Group too before participating in any overly fancy schemes. (Or is it some other country's tax office being deprived of revenue?)

Regards

s 22

Sent from my iPhone

On 20 Dec 2016, at 4:38 PM, Flavel, Matthew <[Matthew.Flavel@TREASURY.GOV.AU](mailto:Matthew.Flavel@TREASURY.GOV.AU)> wrote:

We should loop BEAU/Finance in as well – if the ABS thinks it is a grant there is the potential for it to be classified that way up front.

Matt

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**From:** Dunn, Damien  
**Sent:** Tuesday, 20 December 2016 4:26 PM  
**To:** s 22  
**Cc:** Brennan, Michael; s 22 s 22 s 22 Flavel, Matthew  
**Subject:** Re: Alcoa [DLM=For-Official-Use-Only]  
s 22

There is now a push to give a \$30 mil concessional loan to Alcoa (which after 4-5 years the government would forgive and write off - effectively making it a grant). Apparently this helps Alcoa's tax position, rather than a conditional grant?

This issue may need to be resolved in the next day or two. Minister Hunt is in New York negotiating. Dept Industry said that the Treasurer said he would be guided by Treasury's advice on the loan. We have asked for guidance from the office on this issue.

Let's discuss first thing tomorrow.

Cheers

Damien

Sent from my iPhone

s 22

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**From:** Davy, Kathryn  
**Sent:** Wednesday, 21 December 2016 10:22 AM  
**To:** Dunn, Damien  
**Cc:** s 22 s 22  
**Subject:** RE: Alcoa [~~SEC-PROTECTED, DLM-Sensitive:Cabinet~~]

Damien, on initial look we think the grant could well be assessable and that might be the key issue. It's hard to be definitive though under short notice.

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**From:** Dunn, Damien  
**Sent:** Wednesday, 21 December 2016 9:46 AM  
**To:** Davy, Kathryn  
**Cc:** s 22  
**Subject:** FW: Alcoa [~~SEC-PROTECTED, DLM-Sensitive:Cabinet~~]

s 22

As discussed, please find attached a draft term sheet. Interested in your views, such as whether the grant is assessable income and how the interest deductions work.

Regards  
Damien

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s 22



§ 22

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**From:** Davy, Kathryn  
**Sent:** Wednesday, 21 December 2016 12:06 PM  
**To:** § 22 [redacted] Dunn, Damien; § 22 [redacted]  
**Cc:** § 22 [redacted]  
**Subject:** RE: Alcoa grant - draft brief for Treasurer [~~SEC=PROTECTED,~~  
~~DLM=Sensitive:Cabinet~~]

The risk averse side of me prefers "could" to "would probably" be assessable, but I note that we cover ourselves with the following sentence.

Kathryn

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**From:** § 22 [redacted]  
**Sent:** Wednesday, 21 December 2016 12:03 PM  
**To:** Dunn, Damien; Davy, Kathryn; § 22 [redacted]  
**Cc:** § 22 [redacted]  
**Subject:** Alcoa grant - draft brief for Treasurer [~~SEC=PROTECTED, DLM=Sensitive:Cabinet~~]

Damien, Kathryn, § 22 [redacted]

Attached for comment is a draft brief for the Treasurer to update him on the Alcoa situation.

Regards

§ 22 [redacted]  
Industries and Communications Unit  
Industries, Infrastructure and Environment Division  
The Treasury, Langton Crescent, Parkes ACT 2600  
phone: § 22 [redacted]

s 22

**From:** Dunn, Damien  
**Sent:** Wednesday, 21 December 2016 12:20 PM  
**To:** s 22  
**Cc:** Flavel, Matthew; s 22 s 22  
**Subject:** RE: Term Sheet feedback ~~[SEC-PROTECTED]~~

Useful. Thanks!

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**From:** s 22  
**Sent:** Wednesday, 21 December 2016 12:18 PM  
**To:** Dunn, Damien  
**Cc:** Flavel, Matthew; s 22  
**Subject:** Term Sheet feedback ~~[SEC-PROTECTED]~~

Damien,

I've had a look at the Alcoa term sheet and offer the following observations.

Note that in referring to borrowing costs, I'm simply making comparisons with what is observable in the market place for the US dollar denominated debt of Arconic (Alcoa's debt was seemingly rebadged as Arconic as part of the recent name change or de-merger - so there is a need to confirm exactly the entity to whom the 'loan' is being made). In making this comparison, it should not be inferred that I think this arrangement should be classified as anything other than a grant, but classification is ultimately Finance's call.

Under item #7, "The interest rate above would be equal to Bank Bill Swap Reference Rate + 3%" there are three issues: (a) Which Bank Bill Swap Reference (BBSW) rate? (b) Is the 3% margin appropriate? (c) Interest needs to be compounded.

(a) Which BBSW rate?

"Bank Bill Swap Reference" rate is too ambiguous, as there are multiple BBSW rates set each day, let alone over a 4-5 year period. Each day AFMA (soon the ASX) surveys the short term money market participants regarding what they are paying on 1, 2, 3, 4, 5 and 6 month bank bill rates, trims the outliers and prints the average. This forms the BBSW rate for each of these terms for that day. Typically a floating rate loan (or the floating leg of an interest rate swap) will reference this rate, set in advance and paid in arrears, each time the rate set is due to occur.

On balance I would argue for someone to keep track of 3m BBSW over time, specifically on the same day of each quarter for the life of the loan. Further, given my understanding that there will be no interest paid in a business as usual sense (but just accrued), there is a need for someone to keep score on what this accrued interest amount is - that is, compounding/capitalising the notional interest amount each three months.

(b) Is 3% the right margin?

Higher than usual likelihood of default aside (given the nature of this arrangement), it's in the ballpark.

We found two USD securities badged as belonging to Arconic (but could find no "Old Alcoa" securities), one maturing 15 April 2021 and another maturing 21 Feb 2022. Bloomberg is telling us that the former is swapping back into AUD at 3m BBSW + 2.145% pa and the latter is swapping back into AUD at 3m BBSW + 2.54% pa. Interpolating between these dates would give you around BBSW+ 2.25% for a June 2021 maturity.

There is likely to be a home currency advantage (meaning a higher margin than the above would likely be required were they actually to issue in AUD), so on balance you could make the case for BBSW+2.5% pa.



*(c) If interest is not being paid, it needs to be accrued/compounded at the same frequency as the BBSW resets.*

Finally, given that interest is not paid on a 'business as usual' basis, but only in the event of one of the triggers occurring, there is a case for compounding the interest to be paid as noted above. This might be as simple as inserting "compounding quarterly" into the wording under #7. (There's also a need to insert 'per annum' immediately after whatever margin you land on.)

Happy to discuss any or all of the above.

Regards,

S 22

Australian Office of Financial Management

Treasury Building  
Langton Crescent, Parkes, ACT, 2600  
Ph S 22

s 22

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**From:** s 22  
**Sent:** Thursday, 22 December 2016 2:34 PM  
**To:** Dunn, Damien  
**Cc:** s 22  
**Subject:** RE: Alcoa Commonwealth negotiation [SEC=UNCLASSIFIED]

There is no clause setting out who is the arbiter if there is a dispute about whether the funds are being used for a permitted purpose, only a right to inspect documents and clauses about repayment.

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**From:** Dunn, Damien  
**Sent:** Thursday, 22 December 2016 2:14 PM  
**To:** s 22 s 22  
**Subject:** FW: Alcoa Commonwealth negotiation [SEC=UNCLASSIFIED]

Any thoughts?

s 22



**Term Sheet – Portland Smelter \$30 million grant.****Purpose**

The purpose of this term sheet is to describe key terms of the proposed grant arrangements between the Commonwealth of Australia as represented by the Department of Industry, Innovation and Science (**Commonwealth**) and Alcoa of Australia Limited, Eastern Aluminium (Portland) Pty Ltd, CITIC Nominees Pty Limited and Marubeni Aluminium Australia Pty Ltd, comprising the Portland Aluminium Smelter Project Unincorporated Joint Venture (the **Joint Venture**) to support the Portland Smelter (**Smelter**) to recover from impacts of power outage and return to normal operations as soon as possible.

**Commonwealth Government contribution**

1. Commonwealth will grant \$30 million to the Joint Venture to support the recovery of the Smelter from the impacts of the power outage through capital improvements, repairs and maintenance (the **Permitted Purpose**). The grant will be permitted to be used solely for the Permitted Purpose, and must not be used for any other purposes including redundancies, bonuses, dividends, or repayment of loans including but not limited to intercompany or related party loans except for loans (with the consent of the Commonwealth) that are related to direct expenditure on repairs and maintenance or capital expenditure required to restart the Smelter made after the 1 December event.
2. The Joint Venture will provide the Commonwealth with a plan for how it intends to use the funds provided by the Commonwealth, which must be approved by the Commonwealth prior to the grant being made.
3. The Joint Venture will provide the Commonwealth with an annual report on the usage of the grant funds under the proposed agreement within 30 days of each annual anniversary of the agreement.
4. The Joint Venture will grant the Commonwealth, the Auditor-General, the Privacy Commissioner, the Information Commissioner and the Freedom of Information Commissioner the right to access the premises and inspect/copy relevant documentation and conduct an audit relative to the performance of obligations under the proposed agreement.
5. The Commonwealth's grant will be subject to conditions, including the following:
  - 5.1. the Joint Venture must commit to maintaining operations at the Smelter until at least 30 June 2021;
  - 5.2. production at the Smelter must be maintained at not less than 300,000t per year (the rate of operation in the year leading up to the outage on 1 December 2016); and
  - 5.3. the agreement will recognise that Smelter operations will be required to ramp up to full production over approximately 7 months in 2017, which may be subject to some reasonable slippage.

**Repayment**

6. Should operations at the Smelter fall below 270,000t (90% of the 300,000 run rate), or the Smelter is closed, prior to 30 June 2021, the Joint Venture will be required to repay the funds and interest according to the following schedule:
  - 6.1. curtailment/closure before 30 June 2019: Repayment of whole \$30m plus interest;

- 6.2. curtailment/closure between 1 July 2019 and 30 June 2020: Repayment of \$15m plus interest on this \$15m; and
- 6.3. curtailment/closure between 1 July 2020 and 30 June 2021: Repayment of \$7.5m plus interest on this \$7.5m.
7. The Joint Venture will also be required under the proposed agreement to repay the funds to the Commonwealth in other circumstances including:
  - 7.1. if the funds remain unspent at expiry of an end date to be set out in the agreement;
  - 7.2. if the Joint Venture uses the funds otherwise than in accordance with the agreement (eg, uses the funds for a purpose that is not the Permitted Purpose);
  - 7.3. if any of the Joint Venture parties suffer an insolvency event; and
  - 7.4. if any of the Joint Venture parties breach certain material terms of the agreement (to be agreed).
8. The interest rate applicable to any repayment by the Joint Venture would be equal to Bank Bill Swap Reference Rate + 3%.

#### **Guarantees**

9. Each Joint Venture party will be required to provide an unconditional and irrevocable guarantee from an entity of sufficient financial substance (eg, parent company) acceptable to the Commonwealth for the total amount of funds provided by the Commonwealth to the Joint Venture (subject to financial investigation and assessment of each Joint Venture party).
10. This guarantee will be required to remain in place for the duration of the agreement and the Commonwealth will be able to exercise its rights under the guarantee in accordance with the agreement (eg, if a Joint Venture party is required to repay the funds to the Commonwealth).

#### **Insurance**

11. If an insurance payout is payable to the Joint Venture in relation to the damage that occurred to the Portland Smelter, the Joint Venture will inform the Commonwealth, and the payout amount, less any deductible, shall be paid to the Commonwealth, up to the \$30m grant plus applicable interest.
12. The Joint Venture will be required to maintain specified levels of insurances for the term of the proposed agreement (eg, workers compensation, public liability, property damage).

#### **Payment**

13. The Commonwealth will make the \$30m grant upfront in full following the execution of a legally binding agreement (to be negotiated by the parties), the Minister making a legislative authorisation and the provision of an acceptable plan to the Commonwealth, detailing the full expenditure of the \$30m (to be provided within 30 days of contract signing).
14. The Commonwealth's payment to the Joint Venture is also contingent upon the satisfactory finalisation to the Commonwealth of a funding agreement between the Joint Venture and the Victorian Government, and a relevant power supply agreement for the smelter.

### **Other matters**

15. The proposed agreement will also include requirements in relation to compliance by the Joint Venture with:
  - 15.1. work, health and safety;
  - 15.2. the *Code for the Tendering and Performance of Building Work 2016* (Cth);
  - 15.3. the Australian Government Building and Construction WHS Accreditation Scheme;
  - 15.4. the management of funds including maintaining a separate bank account for the funds; and
  - 15.5. restrictions on the disposal of assets which are purchased, remediated or rectified and using the assets during a designated use period, including that the Joint Venture cannot dispose of such assets without the Commonwealth's consent during a designated period.

### **Employment, Training and Development**

16. The Joint Venture (and the operator and maintainer) will retain employee numbers commensurate with the production levels specified.
17. The Joint Venture will make adequate arrangements for outplacement, training and other employment related services to be provided to any retrenched workers, with a view to them re-entering employment.

### **Community contribution**

18. The Joint Venture will contribute funding for the community to support the development and diversification of the regional community.

### **Non-legally binding**

19. This term sheet:
  - 19.1. is merely a statement of the current intention of the parties and may change;
  - 19.2. is not intended to be legally binding on the parties or give rise to legal rights or obligations; and
  - 19.3. does not constitute a binding or unconditional undertaking or representation by any person.
20. The contents of this term sheet are not binding and no legal rights or obligations are created in relation to the proposed transaction until a formal written agreement is executed between the Commonwealth and the Joint Venture.
21. The Commonwealth will provide a draft funding agreement to commence negotiations.

### **Legislative authority**

22. The agreement to be negotiated between the Commonwealth and the Joint Venture will need to be subject to the Minister making a legislative authorisation, and will not come into effect unless and until a legislative authorisation is made by the Minister, and registered as a legislative instrument.

s 22

**From:** Cabinet Liaison  
**Sent:** Monday, 5 December 2016 5:27 PM  
**To:** Budget Cabinet Business List  
**Cc:** Cabinet Liaison; s 22  
**Subject:** MWS - s 34(2)  
~~[SEC=PROTECTED, DLM=Sensitive:Cabinet]~~  
**Attachments:** Alcoa's Portland Smelter Paper--FINAL FOR LODGEMENT.pdf

~~Sensitive: Cabinet~~  
~~PROTECTED~~

s 34(2)

Good Afternoon,

The attached paper is expected to be considered by the s 34(2)

Hardcopies will be available from Cabinet Division Staff from tomorrow at meeting location.

This document should be handled in the same secure manner as other Cabinet documents and passed strictly on a 'need-to-know' basis.

Regards,

Cabinet Division  
Department of the Prime Minister and Cabinet

~~Sensitive: Cabinet~~  
~~PROTECTED~~

Regards,



s 22  
Parliamentary and Legal Services Unit  
Financial & Parliamentary Division  
The Treasury, Langton Crescent, Parkes ACT 2600  
P: s 22  
email: s 22 [treasury.gov.au](http://treasury.gov.au)

s 22

**From:** Cabinet Liaison  
**Sent:** Tuesday, 6 December 2016 9:28 AM  
**To:** Budget Cabinet Business List  
**Cc:** Cabinet Liaison; s 22  
**Subject:** MWS - s 34(2)  
~~[SEC=PROTECTED, DLM=Sensitive:Cabinet]~~  
**Attachments:** Revised Alcoa's Portland Smelter Paper.pdf

~~PROTECTED~~  
~~Sensitive: Cabinet~~

Revised Paper:  
s 34(2)

Good Afternoon

This revised paper is expected to be considered by the s 34(2)

The only change from the previous version is the deletion of the last dot point on page 6.

Please disregard the previous version. This revision to the paper has come at the request of the MO.

Regards

Cabinet Division  
Department of the Prime Minister and Cabinet

~~Sensitive: Cabinet~~  
~~PROTECTED~~

Many thanks

s 22  
Parliamentary & Legal Services Division  
The Treasury, Langton Crescent, Parkes ACT 2600  
phone: s 22  
email: s 22 [@treasury.gov.au](mailto:s 22@treasury.gov.au)

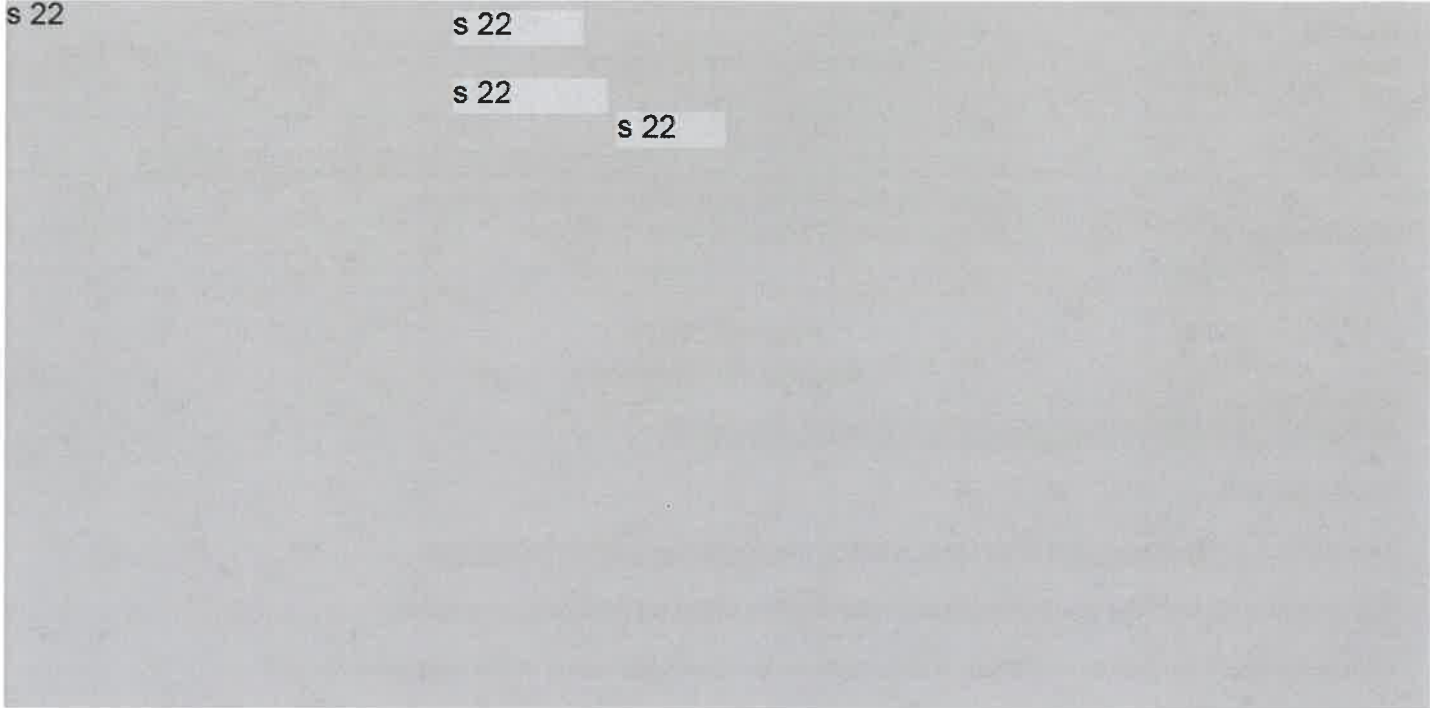
s 22

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On 22 Apr 2017, at 4:34 pm, s 22 <s 22 [TREASURY.GOV.AU](mailto:treasury.gov.au)> wrote:

Hi s 22

Below are further items from HL2 provided by Finance for comments.

Could you please review and get back to us with any comments/issues/positions prior to 6.30pm tonight.

The R&D items have been provided only for your information – we have discussed with Finance and asked them to remove those items as these items are for the Treasury hunting licence letters, if the Tsr chooses to proceed in that way. Finance seems to be merely given effect to the letter from the Industry Minister s 34(3) We'll need to determine from the TO whether this is how the Tsr wishes to proceed or whether he wishes to proceed s 34(3)

s 22

Cheers

s 22 s 22

Budget Policy Division

The Treasury, Langton Crescent, Parkes ACT 2600

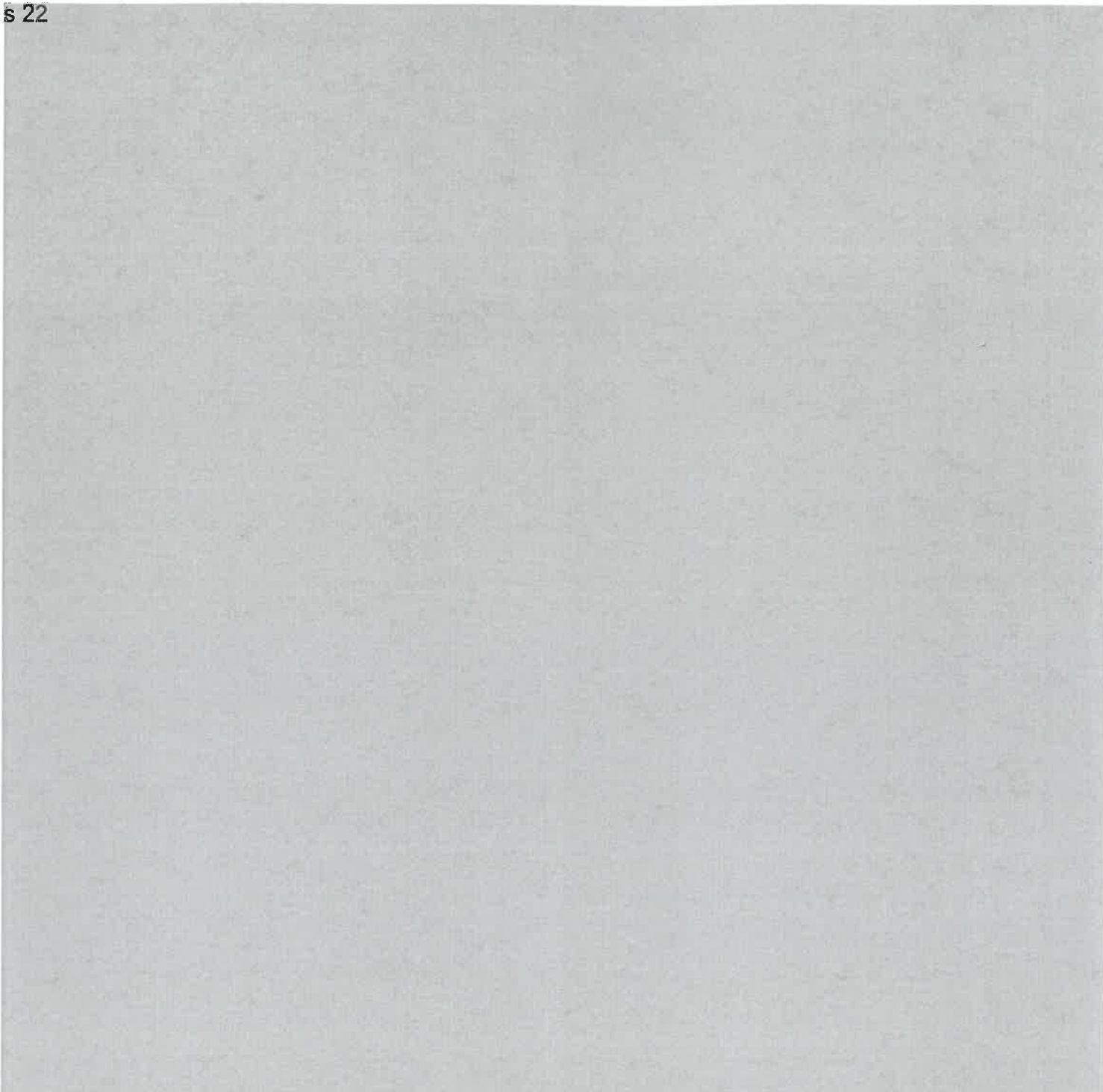
phone: s 22

mobile: s 22

email: s 22 [treasury.gov.au](mailto:treasury.gov.au)

Non R&D Non NISA





8) *Research and Development Tax Incentive – Offsets for previous decisions*

We seek your agreement to use savings of \$80.0 million from amendments to the Research and Development Tax Incentive to offset \$ proposals previously agreed:

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*Financial Assistance for the Alcoa Portland Aluminium Smelter (MT16/0572/CAB of X April 2017 refers).*

There are no ASL impacts associated with this proposal.

This item is to be published as a measure in the 2017-18 Budget.



**INDUSTRY, INNOVATION AND SCIENCE**

s 22



## NEW INITIATIVES

### Alcoa Portland Aluminium Smelter – Financial Assistance

The \$30.0 million grant to the Alcoa Portland Aluminium Smelter is part of efforts by the Australian Government to secure the ongoing viability of the Smelter following the damage caused by the power outage incident on 1-December-2016. The grant will be used to restore operations and provide certainty for workers. In conjunction with a support package from the Victorian Government, this assistance will enable the Smelter to maintain operations until at least 30-June-2021. Industry transition assistance, such as this support to Alcoa in the Portland region in Victoria, recognises the value of businesses and industries to regional communities.

~~PROTECTED Sensitive: Cabinet~~



PRIME MINISTER

Reference: MC17-006366

18 JAN 2017

The Hon Greg Hunt MP  
Minister for Industry, Innovation and Science  
Parliament House  
CANBERRA ACT 2600

Correspondence Received - Office of the Treasurer	
Office Circulation	
Treasurer	Contact Adviser - .....
Chief of Staff	Other Adviser - .....
Deputy Chief of Staff	.....
24 JAN 2017	
Departmental Action	.....
Acknowledge	.....
Substantive Response	.....
Appropriate Action	.....
Information	.....
Constituent Response	.....
Signatory	.....

Dear Minister *Greg*

Thank you for your letter dated 14 January 2017 regarding your work negotiating with Alcoa and the Victorian Government to assist with the recovery of the Portland Aluminium Smelter to support local jobs and industry.

As agreed on 15 January 2017, I support you offering a \$30 million grant of assistance to the Portland Aluminium Smelter Joint Venture to maintain operations at the smelter until at least 30 June 2021. I also ask that you consider the longer-term outcomes for the smelter operation and the Portland region as part of your work with the Minister for Employment on industry vulnerabilities and a Structural Adjustment Framework.

I ask that you bring forward an offset for this grant in the 2017-18 Budget context, noting you are continuing discussions with the Minister for Infrastructure and Transport on potential offsets from his portfolio.

A copy of this letter has been provided to the Treasurer and the Ministers for Finance, Infrastructure and Transport, Employment, and Environment and Energy.

Yours sincerely

*[Handwritten signature of Malcolm Turnbull]*  
MALCOLM TURNBULL

~~PROTECTED Sensitive: Cabinet~~

s 22

**From:** Dunn, Damien  
**Sent:** Monday, 16 January 2017 8:01 AM  
**To:** s 22 s 22 s 22  
**Cc:** Fraser, John (Secretary); Brennan, Michael; McDonald, Hamish; s 22 FG  
IIED Industries and Communications Unit  
**Subject:** FW: URGENT ALCOA [~~SEC-PROTECTED~~]  
**Attachments:** Letter to PM - Revised, 14 Jan 17.docx; Attachment C - New Policy Proposal.docx

s 22

Please find attached correspondence from Minister Hunt to the PM regarding Alcoa's future. It includes a \$30 mil NPP to keep the Alcoa Portland Smelter viable until 31 January 2020. The \$30 mil grant was previously endorsed by Cabinet on 13 December 2016.

As per our earlier advice (13 and 23 December), our preference is for a conditional grant such as this, rather than other forms of financial assistance.

It is likely that Minister Hunt's office will be liaising with your office and Minister Cormann's office on the appropriate offsets.

Finally there is the real risk that support from the Commonwealth and Victorian governments will not secure the future of the Portland Smelter, with a renewable energy future for the plant possibly a difficult proposition.

Please let us know if you need further information.

Regards

Damien

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**Damien Dunn**  
a/g Division Head  
Industries, Infrastructure and Environment Division  
The Treasury, Langton Crescent, Parkes ACT 2600

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E: damien.dunn@treasury.gov.au

s 22



**The Hon Greg Hunt MP**

**Minister for Industry, Innovation and Science**

The Hon Malcolm Turnbull MP  
Prime Minister  
Parliament House  
CANBERRA ACT 2600

Dear Prime Minister

I am seeking your approval to provide a one off, discretionary, \$30 million grant (exclusive of GST) to assist the recovery of the Portland Aluminium Smelter (the Smelter) following the 1 December 2016 power outage that caused significant damage to the Smelter's operations. This follows Cabinet's decision of 13 December 2016 (MT16/0572/CAB).

As you know, I visited senior Alcoa management in New York on 20 December 2016 to discuss the ongoing viability of the Smelter. Alcoa and its Joint Venture partners are still in the process of assessing the future of the Smelter operations, and have indicated that they would accept offers of Commonwealth and Victorian Government support to help secure the sustainability of the Smelter. At that meeting, I also outlined what the Commonwealth Government could do to assist in developing a commercially viable long-term power solution for the smelter, potentially involving the Clean Energy Finance Corporation.

Without Commonwealth assistance to restore production, there is a risk the Smelter will not continue to operate. Should the Smelter close, it is estimated approximately 2,000 jobs will be lost in the region, including the Smelter's employees and contractors. In light of this, the proposed grant will assist the Smelter to undertake capital improvements, repairs and maintenance, which will support the recovery of the Smelter.

Details of the proposed grant are set out in the attached New Policy Proposal, for which costings will be agreed with the Department of Finance. Treasury has also been consulted in the development of the proposal and indicated support for a grant, as opposed to a loan arrangement.

I propose to finalise the details of the offsets with the Minister for Finance and the Minister for Infrastructure and Transport during the course of the Budget process.

The \$30 million grant will be subject to conditions, including, maintaining operations at the smelter until at least 30 June 2021 and maintaining production to at least 90 percent of pre-outage levels. Should these conditions not be met, the government will recover its grant funding based on a repayment schedule built into a funding agreement.

In addition, the proposal is dependent on a concurrent Victorian state government support package for the Smelter.

The payment of the grant is conditional on me making a legislative instrument authorising the expenditure. My department is consulting with the Attorney-General's Department and the Department of Finance in the drafting of this instrument.

Following your approval, I will write to Alcoa indicating in-principle agreement to offer a \$30 million grant. My department will then undertake the necessary processes to finalise a legislative instrument and the subsequent funding agreement.

I will continue to keep you informed of progress to finalise this grant, including outcomes of my negotiations with Alcoa.

Yours sincerely

Greg Hunt

Cc. The Hon Scott Morrison MP, Treasurer  
Senator the Hon Mathias Cormann, Minister for Finance  
The Hon Darren Chester MP, Minister for Infrastructure and Transport  
The Hon Josh Frydenberg MP, Minister for Environment and Energy

Encl. (1)

s 22

**From:** s 22  
**Sent:** Monday, 5 December 2016 7:06 PM  
**To:** Dunn, Damien  
**Cc:** s 22 s 22 s 22 s 22 s 22 s 22  
**Subject:** RE: MWS - s 34(2)  
~~SEC-PROTECTED, DLM-Sensitive:Cabinet~~  
**Attachments:** 161205 MS Possible closure of Alcoa's Portland aluminium smelter.docx; Alcoa's Portland Smelter Paper--FINAL FOR LODGEMENT.PDF

Damien

Attached is a draft brief for the Alcoa paper.

BPD/SPD colleagues – if you have any comments, please let me know ASAP on s 34(2)

Cheers

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