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Alcoa smelter subsidy talks hit by \$212m curveball

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Negotiations to extend state and federal subsidies to [Victoria's loss-making Portland aluminium smelter](#) just got more complicated, courtesy of a dispute between the smelter's owner and the ATO worth almost as much as the current subsidy package.

The Australian Taxation Office said a subsidiary of US aluminium giant Alcoa should have paid an extra \$212 million of income taxes in previous years.

The ATO lodged its preliminary claim with the subsidiary, Alcoa of Australia, shortly before Christmas. The dispute is focussed on the way the subsidiary priced the sale of alumina to third parties.



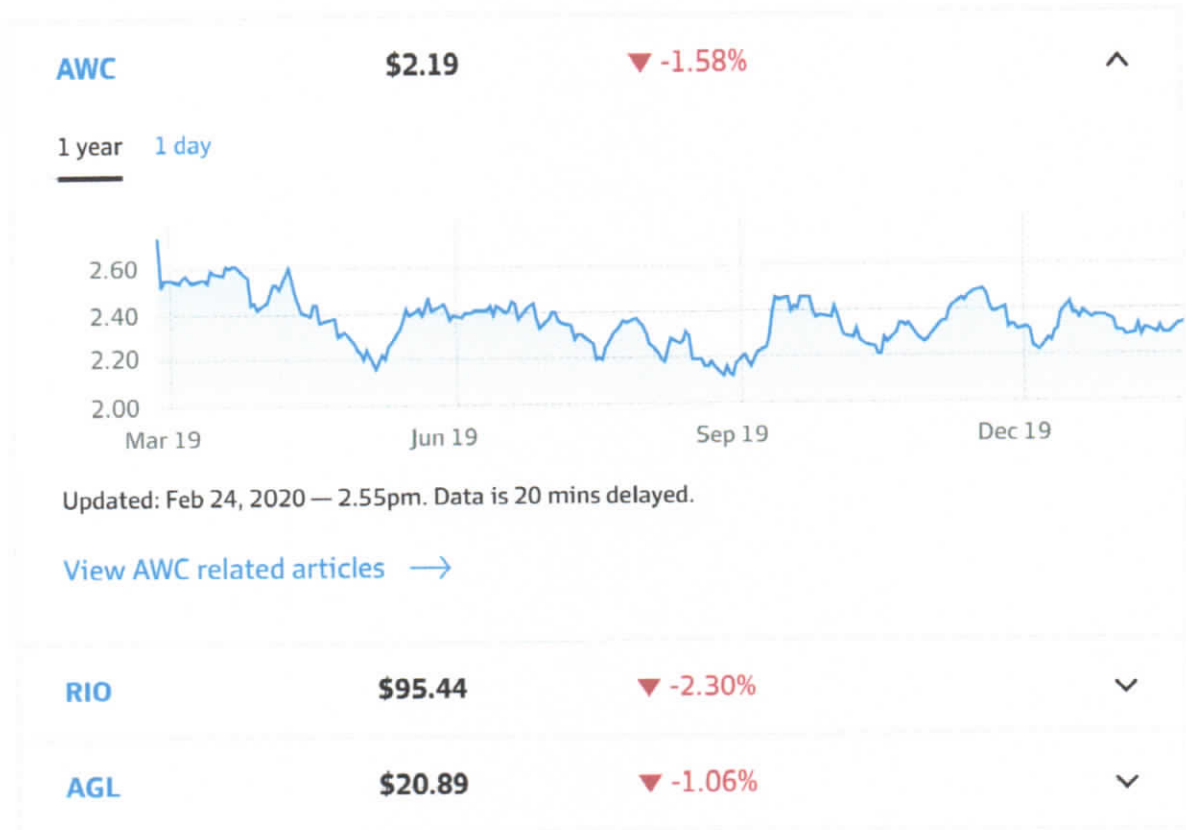
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Alumina is the basic feedstock for aluminium, and it is not clear whether the Portland smelter, which is an Alcoa-led joint venture between multiple companies, would be considered a third party for tax reasons.

The claim, which Alcoa does not agree with, is not yet a fully fledged "tax assessment", but is at a more preliminary stage of development within the ATO known as a "statement of audit position".

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The brewing dispute creates an awkward backdrop for talks between the Portland smelter owners and governments over an extension to a four-year support package

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Losses spiral

Alcoa described the energy market in Australia's eastern states as the most expensive "on the planet" during an investor call in January.

Despite the state and federal support, the Portland smelter's losses have spiralled since 2017, and its future appears bleak as Alcoa conducts a clean up of its global portfolio, vowing to exit uncompetitive and carbon-intensive assets.

Portland is vulnerable on both points, given the bulk of its electricity comes from low quality brown coal in Victoria's La Trobe Valley.

Alcoa of Australia owns 55 per cent of the Portland smelter. China's CITIC owns 22.5 per cent and Japan's Marubeni also owns 22.5 per cent.

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The new tax claim also has relevance for ASX listed Alumina Limited, which owns 40 per cent of Alcoa of Australia.

Alumina Limited managing director Mike Ferraro is expected to update investors on negotiations for a Portland bail out when he presents full-year financial results on Tuesday.



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Dan Tehan.

Further insight into Australia's struggling aluminium sector will come on Wednesday when Rio Tinto publishes its full-year results.

Rio is the major shareholder in smelters in Queensland, New South Wales and Tasmania, which have collectively been losing money for more than a year.

Rio chief executive Jean-Sebastien Jacques described the smelters as being on "thin ice" in August, and Rio is negotiating their future with state and federal governments.

Rio's aluminium assets are unlikely to look much better in this week's accounts, given aluminium prices were mostly steady between August and December 31.



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