BHP Billiton smelter discount has cost Eskom R11.5bn

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A CASE study on SA's aluminium sector has found BHP Billiton's special pricing agreement for its Bayside and Hillside smelters in the Richards Bay industrial development zone has now cost Eskom R11.5bn.

The research by Tips, a nonprofit organisation that facilitates policy development and dialogue, finds that if Eskom charged BHP Billiton its general Megaflex rate, the smelters would go out of business.

There is a bright side to the equation as the redirected "excess" electricity would probably enable the general economy to grow handsomely. But this would also require legislative changes that would take years.

Saul Levin, head of research and policy strategy at Tips, said yesterday that BHP Billiton's two smelters created 7,000 jobs and supported 33,000 people. Including downstream industry, employment rises to 15,000.

But while BHP invested R60bn in these facilities as a direct result of government incentives, the net effect was a "massive cost to the economy", Mr Levin said. The "loss-making" Bayside smelter also closed a substantial part of its operations in June, creating potential supply headaches for Hulamin, SA's major aluminium fabricator.

In the 1990s, the state helped facilitate SA's aluminium industry through the Industrial Development Corporation. At the time, there was an abundance of cheap Eskom electricity.

Before its recent multibillion-rand liability, in the early and mid-2000s Eskom benefited to the tune of R26bn from this process, until electricity prices started to rise sharply. Mr Levin said this indicated the critical variability over periods of time of inputs such as electricity prices in formulating industrial policy.

It also highlights the problems of keeping industries alive through what are effectively state subsidies.

BHP Billiton's aluminium inputs added an average R8.4bn a year to SA's exports, adding R4.4bn to the balance of payments. This includes issues relating to import and export parity pricing and premiums charged in this regard, which raises further questions over the economic benefits of green energy supplies in SA.

To this end, SA is looking to the potential of Mozambican oil and gas finds, and shale gas in the Karoo. But Eskom's Medupi and Kusile stations point to a continuing heavy reliance on "dirty" fuels well into the future.

University of the Witwatersrand director of corporate strategy and industrial development Seeraj Mohamed said yesterday the private sector had a big role to play in formulating incentives and constraints.

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