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RusAl in $850M Finance Deal With Chinese Bank to Build Siberian Factory

By Derek Andersen

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RusAl signed a deal with the Export-Import Bank of China to jointly finance the construction of a new anode factory in the Irkutsk region. Above, a RusAl aluminum plant also in the Irkutsk region.

United Company RusAl and the Export-Import Bank of China have signed a cooperation agreement on a RusAl greenfield project in Eastern Siberia worth up to $850 million, the aluminum producer said Tuesday.

The agreement foresees joint cooperation on financing for the construction of a new anode factory in the Irkutsk region. Anodes are used in electrolysis process to produce aluminum.

The main consumers will be RusAl's aluminum smelters in Eastern Siberia, which are able to meet China's growing demand in aluminum. The geographic proximity of the factory to its key consumers will shorten the supply chain and strengthen the company's vertical integration.

"The construction of the anode factory in direct proximity with the company's most green and technologically advanced units will further strengthen RusAl's position in the current competitive environment," first deputy CEO Vladislav Solovyov said.

In an interview with Reuters cleared for Tuesday publication, RusAl head of equity and corporate development Oleg Mukhamedshin said the company is prepared to cut output and costs this year to support prices, which could recover in 2013 if China also reduces production.

"The market price is at a level where about 30 percent of producers are unprofitable. This means that people are forced to significantly reduce capital expenditures, which leads to stagnation of the industry," Mukhamedshin said.

The production cuts would affect RusAl's least efficient capacities in the European part of Russia, a spokeswoman told The Moscow Times on Tuesday, while the more cost-efficient and ecological Siberian operations would have reserve capacity available for future exploitation.

The price of the metal, which is in chronic oversupply, is under pressure from reports that China's top aluminum-producing province of Henan may subsidize electricity used by loss-making smelters in a bid to spur local growth.

Mukhamedshin criticized this policy, calling on China to cut unprofitable production. Global companies, excluding Chinese producers, have cut output by about 1.3 million tons since December 2011.

Mukhamedshin estimated that 6 million to 7 million tons of aluminum output in China are unprofitable now out of the 22 million that the country is expected to produce this year.

"Our Chinese colleagues cut 1.7 million tons last year, and since January we do not see capacity shutting down in the country, which accounts for 45 percent of global aluminum output," he said.

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