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RusAl Sees Room for More Cuts as Aluminum Price Struggles

By The Moscow Times

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LONDON — Aluminum giant RusAl could consider deeper capacity cuts if prices for the metal continue to languish around levels last seen in the aftermath of the financial crisis, a senior executive said.

The aluminum industry is struggling with excess capacity, rising costs and weak prices. RusAl estimates a fifth of global production outside China is loss-making, even with demand expected to grow 6 to 7 percent in 2013.

Last year, the company promised to slash 300,000 tons of capacity, a 7 percent drop, and production dropped 4 percent in the first quarter of this year. But rival Alcoa said this month it could shut down as much as another 11 percent of smelting capacity, 460,000 tons, to remain competitive.

"We can (cut more)," deputy chief executive Oleg Mukhamedshin said in an interview.

"There is a decision already, supported by our board of directors, and it is 7 percent from last year's production. If more reduction cuts are needed, we will go back to the board."

He declined to elaborate on whether a price level would trigger a decision, but said sufficient cuts across the beleaguered aluminum industry would help lift prices to $2,000 per ton and above.

Benchmark London Metal Exchange, or LME, aluminum is currently trading at $1,835, around half the value it was in September 2008.

China, meanwhile, a major producer and the world's largest consumer, remains in balance, consuming as much as it produces, with little likelihood that it will export metal anytime soon.

Despite an expected increase in demand globally, the world's largest aluminum company is mulling another reduction in smelting.

Mukhamedshin said there were signs the new Chinese government would tackle concerns about overcapacity and high-cost smelters, closing down production in a country where almost a third of production operates at a loss.

"The new government has to put in place a new program, which has to be lifted down to the province level," he said.

A push to benefit from cheaper power costs has boosted smelting in northwest China, but producers there also face higher transportation and bauxite shipping costs to cover the 3,000 kilometers from Shandong on the coast.

The availability of bauxite could also become a problem after 2014, when Indonesia terminates exports of ore to try and encourage processing at home.

These factors, Mukhamedshin said, should mean that the idea of building Chinese smelters in Siberia, where infrastructure, power and labor are available, is not so far fetched.

Mukhamedshin also called on the LME to be more transparent about its metals warehousing system, which has become logjammed as consumers wait months to take delivery of metal.

Firms running warehouses registered by the LME, the world's biggest industrial metals marketplace, have been making money by building up big stocks and allowing lines to grow for consumers to withdraw material, meanwhile charging rent for storage.

That has pushed up premiums, the price paid above the LME cash price to cover delivery costs for physical metal, further compounded by financing deals which have tied up most of the world's estimated 10 million tons of spare stock.

So while the LME price languishes at low levels because of overcapacity, aluminum premiums have remained close to record levels of around $300 per ton.

"My investors are asking a lot of questions that we cannot address. How important is the impact of financial investors? What's happening with LME stock?" Mukhamedshin said.

"Why is there a gap between the LME price and the actual physical market price? I just cannot address those questions because we do not have sufficient information. I think it is nonsense when there is such a huge gap between the market price and reality."

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