

# Aluminum Producers Feel Squeeze of Low Prices, New Rules

By [The Moscow Times](#)

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GENEVA — Leading global aluminum producers, including Russia's RusAl, are feeling the pinch of low metal prices in an oversupplied market and see little choice but to cut capacity, further eroding already thin margins.

Proposed rule changes for industrial metals warehousing could erode the profitability of financing deals that have locked up metals in London Metal Exchange (LME) depots, leaking metal into an oversupplied market and putting pressure on prices.

"There is very little light at the end of the tunnel," Thomas Bradtke, partner and managing director of Boston Consulting Group Dubai, said at the Metal Bulletin aluminum conference in Geneva.

"There is not much in terms of margin generation capacity in this industry with a lot of fixed capex. There is a huge legacy of super expensive assets. It's a very challenging starting point.

... It won't be solved from the demand side."

LME-registered warehouses hold 5.5 million tons of aluminum. Much of it is tied up in financing deals, in which investors take advantage of low borrowing costs to sell aluminum forward and store it cheaply in the interim.

Backlogs in deliveries from the LME warehousing network have created long queues and inflated the premiums to obtain physical metal, sparking complaints from consumers.

Those complaints have led to a string of U.S. lawsuits and an LME proposal to overhaul its delivery system from next April.

As the new rules force warehouses to release more stocks, LME prices and premiums are expected to decline.

High premiums, a lifeline for aluminum smelters, have already fallen from record highs hit earlier this year. The underlying benchmark three-month aluminum price was \$1,782 per ton Wednesday, down by nearly a third from a peak of \$2,803 a ton in May 2011.

Falling premiums "put some of the marginal smelters in an even more difficult situation. Some smelters in Q4 may come into more trouble," Oliver Bell, executive vice president of the rolled products division at Hydro, said at the conference.

RusAl, the world's largest aluminum producer by output, has already cut 350,000 tons of production capacity compared with last year and closed three smelters, with more expected.

"At this level of prices, I think we will see more closures, mostly in the western part of Russia," first deputy chief executive Vladislav Solovyov said at the conference.

Consultancy CRU estimates it will take until 2017 for the knock-on effects of the new rules to force the shutdown of 700,000 to 1 million tons of annual production capacity outside China.

The scope of the predicted shutdowns compares with a surplus on the global aluminum market that is forecast to widen from 825,385 tons this year to 1 million tons in 2014, according to a poll of analysts.

## **Shuttered**

U.S.-based Alcoa, the world's second largest producer of aluminum, has already shuttered about 13 percent of its global smelter capacity and has put another 460,000 tons under review.

Mining group Rio Tinto is still carrying the burden of its \$38 billion takeover of Canada's Alcan, a poorly timed 2007 deal which has racked up \$30 billion in writedowns, with the mining group booking losses in aluminum as demand slumped and Chinese output soared.

Nigel Steward, Rio Tinto Alcan's Vice President, Carbon, Energy and Climate Change, declined to comment on any further shutdowns, but said "we have taken a very disciplined approach to our portfolio."

Chinese smelters are also under pressure. Output in the world's largest producer and consumer of aluminum dropped by 770,000 tons in July relative to June.

But Qin Junman, vice president at China Nonferrous Metal Industry's Foreign Engineering & Construction Co., estimates that new smelters in areas with low-cost energy could turn a profit at current prices.

"With these new smelters, we estimate 2.7 million tons are under construction, so the old ones will have to close," he said at the conference

"We have to stop building new capacity. The government has issued restrictions, but private investors are building more."

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