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RusAl Launches Legal Action Against Metal Exchange Rule Changes

By The Moscow Times

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The world's biggest aluminum producer RusAl has begun legal action aimed at having the London Metal Exchange overturn planned reforms to its warehousing policy.

The judicial review sought by the Russian company follows U.S. lawsuits against the LME sparked by its move to change rules to reduce delivery backlogs.

The oldest and largest marketplace for industrial metals, the LME is caught between producers such as RusAl who fear rule changes could lower aluminum prices and industrial users who have long complained that prices have been propped up artificially.

RusAl said it filed a British judicial review on Monday, demanding the scrapping of the LME's changes.

The LME unveiled the planned changes last month in response to complaints about queues

of more than a year and large surcharges to withdraw metal from its warehouses.

"LME management considers that the grounds of RusAl's complaint are without merit, and will defend any judicial review proceedings vigorously," said the exchange, which is owned by Hong Kong Exchanges and Clearing Ltd.

"Implementation of the proposed changes to the warehousing policy will proceed as announced."

RusAl is not requesting financial compensation from the LME in its legal action, a source close to RusAl said.

The producer says that an LME consultation process was flawed and it is also arguing a violation of the European Convention on Human Rights, the source added.

The case is expected to be heard in February or March in England's High Court ahead of the planned April 1 implementation of the new regulations, said the source, who declined to be named.

RusAl, which posted a recurring net loss of $132 million in the third quarter, is concerned that the new regulations will lower premiums which consumers pay on top of LME cash prices for metal for immediate delivery, the source said.

The underlying LME price will probably eventually rise, but that could take some time and leave producers exposed. "RusAl ... expects that the time lag will be between 18 months and as long as three years," the source said.

Benchmark aluminum prices on the LME have lost more than a third of their value since touching a peak in May 2011, due to a glut of supplies, causing losses for producers, although strong premiums have helped offset the decline.

This year aluminum is down about 15 percent and was trading on Tuesday at about $1,750 per ton.

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