

# With Carbon Border Taxes Looming, Rusal to Spin Off High-Carbon Assets

**Deripaska-linked aluminum producer will divest its dirtiest plants as it hopes to tap into a booming green metals market.**

By [Jake Cordell](#)

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Globally, producing one ton of aluminum emits more than 12 tons of carbon dioxide. **Rusal**

Russian metals giant Rusal is embarking on a sweeping corporate overhaul in a bid to capitalize on the green energy revolution, curry favor with environmentally minded investors, and tap into lucrative markets for greener metals.

The company, which is connected to sanctioned oligarch Oleg Deripaska, announced plans last week to split into two businesses — one focused on producing green aluminum with a lower carbon footprint, and a dirtier, high-polluting arm encompassing the firm's most carbon-heavy plants.

Rusal will retain the eco-friendly assets and rebrand to Al+, while the new company will be demerged and is set to get a separate stock market listing.

“This is another major step in our journey to lead the global aluminum industry into the low carbon economy,” [said](#) Lord Greg Barker, chairman of Rusal’s parent company EN+, and a former British energy minister.

“As the sustainability movement gathers pace around the world, the proposed demerger ... would allow both companies to unlock their full potential,” added Rusal Chairman Bernard Zonneveld in a company [statement](#). “The proposed separation of assets with different carbon footprints will open the door for future shareholder value creation and will accelerate growth opportunities.”

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Rusal is the world’s third largest aluminum maker — the largest outside China — and is responsible for around 6% of the global market. It was majority-owned by Deripaska until the U.S. slapped sanctions on the Kremlin-linked oligarch in 2018, forcing him to sell off a portion of his holdings in Rusal’s parent company EN+.

That triggered a 30% surge in global aluminum prices over the space of three weeks — a sign of Rusal’s importance to the world markets. Bloomberg News reported last December that European officials had [concluded](#) that despite bringing his official shareholdings down, Deripaska still has de facto control over the company — sparking fresh [fears](#) it could be re-sanctioned.

In a [statement](#) to The Moscow Times, Rusal said Deripaska is “no longer involved in the running of the company.”

### **Green premium**

Analysts see clear benefits for the company from a green reorganization.

“Aluminum is a highly energy-intensive metal to manufacture, and there is a lot of pressure being put on aluminum makers to cut their carbon dioxide (CO<sub>2</sub>) emissions. From that standpoint it’s definitely a positive step that Rusal has taken,” said Varun Sikka, metals analyst at Alpha Value.

Rusal is already one of the world’s greener aluminum producers and is [aiming](#) to have the lowest carbon footprint in the entire industry.

According to its calculations, average global emissions for producing one ton of aluminum are 12.3 tons of CO<sub>2</sub>. Due to its extensive use of hydropower and renewable energy, Rusal emits 2.2 tons of CO<sub>2</sub> per ton of aluminum. Splitting off its higher-polluting smelters and plants from the core business will allow the new Al+ to bring that level down even further.

That should have clear financial benefits, says BCS Global Markets analyst Artem Bagdasaryan.

“Al+ will be able to get more favorable financing terms, because they will be more environmentally-friendly and can attract funds at a better rate. Plus, the new Al+ will not be as intensive in terms of capital expenditure as the dirtier company — that will also help them secure funding at better rates.”

Most analysts expect that the combined value of the two new companies will exceed Rusal’s current market capitalization — because environmentally-friendly firms typically attract higher valuations from investors.

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Al+ is also expected to be able to command a better premium from customers for its greener aluminum. Both the EU and U.S. are considering introducing a carbon border tax — a tariff on goods brought into the country based on the level of CO<sub>2</sub> emitted in producing them — as part of ambitious efforts to cut emissions beyond their own borders.

That means firms will be prepared to pay more for greener products — especially notoriously dirty metals like aluminum — if it will help them cut tax liabilities. Russia’s main business lobby previously warned it could [cost](#) Russian firms 50 billion euros (\$61 billion) over the next decade.

Although Rusal has already tried marketing its so-called “green aluminum” through a separate brand, having an entire company whose products are less carbon-intensive should help its efforts to command a higher price.

“Right now there isn’t any large liquid market for trading green aluminum to show what price advantage it could bring for Rusal and others,” Sikka told The Moscow Times. “But at current levels, a premium of 10–20% for green aluminum could be reasonable.”

The metal is currently [trading](#) close to \$2,400 a ton — its highest price since the spike in April 2018 when Deripaska was sanctioned — as metals prices have surged coming out of the coronavirus pandemic.

“It all depends on how aggressively the West prioritizes the green transition. The price of carbon has gone through the roof in Europe in the past few years with the EU’s unwavering focus on the green transition. So if that continues, the premium on green aluminum could be much higher,” Sikka adds.

#### **Russian approach**

The corporate shakeup also demonstrates the differing approaches to climate change in Russia and the West.

Company statements indicate that Rusal’s new greener business will focus on international markets, selling its higher-priced, less-polluting aluminum into Europe, the U.S. and elsewhere, while the dirtier company will be listed on the Moscow Exchange and target Russian customers — where there is less demand for premium greener products.

That is in line with broader [ESG trends](#) in which Russian companies with listings on foreign

stock markets or who need access to international capital markets have been trying to greenify their operations, in lieu of a sustained push from the Russian government.

The demerger model is also garnering more attention. Miners Rio Tinto and Anglo American have recently spun off their coal assets in an attempt to get a healthier carbon footprint for their main businesses. In Russia, steelmaker Evraz has also embarked on a divestiture campaign, while private oil giant Lukoil also [consolidated](#) some of its high-carbon assets into a new entity earlier this year.

“There are at least two cases happening in Russia right now — so this could be a new trend which companies are looking at,” says Bagdasaryan.

“It’s something a lot of mining firms are trying to do in order to hit their green targets,” Sikka added. “A lot of marquee investors have [cut their exposure](#) to high-carbon footprint firms because it didn’t fit within the new ESG framework. The companies are perhaps now trying to win back these investors with these new measures.”

But for some, the Rusal shake-up is not such a clear corporate victory.

“It could be positive, but it’s not definitely going to be positive,” Aton analyst Andrey Lobazov told The Moscow Times. “There are big drawbacks.”

He worries about how the two new companies will pay dividends and says it is unlikely either would be big enough to secure inclusion into index-tracking funds, the backbone of the passive investment market. Trading volumes would also be split between the two companies, meaning liquidity will be lower — another possible red flag for investors.

Additionally, billionaire Viktor Vekselberg, whose investment group Saul Partners owns a 26% stake in Rusal, is opposed to the shake-up. While Vekselberg does not have enough voting rights to strike down the transformation, a disagreement could be problematic.

“When major shareholders disagree on strategic moves, that’s never positive news,” Lobazov said.

Analysts said the possibility of fresh sanctions and questions over [the role of Deripaska](#) will continue to hang over both the new companies — potentially limiting any upside.

## **Environmental questions**

There are also questions over just how environmentally friendly the corporate shake-up will actually be — especially since Rusal’s dirtier production facilities will now be isolated from Western pushes to decarbonize.

“In terms of overall emissions, it doesn’t really change anything in the near term,” said Sikka. “If the combined entity is emitting, say 20 units, and then you have one company emitting five and another 15 — the overall picture is the same.”

“The green transformation is difficult and capital intensive — you need to uproot and replace a lot of existing infrastructure. That requires a lot of money. It’s not going to reap many results in the short or medium term.”

The hope is that as more investors flood into ESG investing the market will naturally reward greener companies with more cash and higher valuations which, in turn, can underpin more investment in decarbonization initiatives.

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Rusal's parent EN+ has set a target of 2050 to become carbon neutral, in what S&P Global [called](#) "the most ambitious carbon reduction target yet seen in the global aluminum industry."

The demerger might only be completed in 2022, the company said — and it is still unclear exactly how aggressively the new arm will be able to cut emissions.

In the statement announcing the plans, EN+ said only that the greener Al+ entity would seek to be net zero. The dirtier Russian business would adopt an intensive capital investment program to "drive down pollution," it added, but made no concrete commitments or targets.

"But the fact these measures are underway is a good signal," Sikka said.

"Because this wasn't a mind-set that existed across the industry two or three years ago."

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