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Aluminium groups warn of smelter closures due to Rusal sanctions

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European companies hunt for new suppliers after US action against Russian group

European aluminium producers are warning that US sanctions against Russian producer Rusal could leave them unable to keep their smelters running at full capacity and lead to severe shortages of the metal.

Several big European producers are seeking alternative sources of a key aluminium raw material, alumina, which they previously bought from Rusal.

The sanctions mean European customers are unable to buy from the company, which is controlled by oligarch Oleg Deripaska. This has sent the price of alumina soaring, increasing costs for aluminium producers which depend on Rusal as a reliable source.

Aluminium companies say there may not be enough alumina to keep their smelters going, warning it also takes time to certify new suppliers, especially from China. That could have knock-on effects on key European industries from carmakers to makers of aluminium cans and foil.

“In the worst case this may force other plants to curtail capacity in Europe,” Halvor Molland, a spokesman for producer Norsk Hydro, said. “There are rumours in the market that this is something people are looking into.”

Shutting production at an aluminium smelter is a drastic step that could take months to reverse. Aluminium is made by using large amounts of electricity to turn refined alumina into liquid metal. As much as 20 per cent of Europe’s primary aluminium production is at risk of being curtailed, analysts at Harbor Aluminum said.

“I’m very concerned about the potential impact,” said Gerd Götz, director-general of European Aluminium, an industry association whose members include Rio Tinto and Alcoa. “If a cluster of this value chain is disrupted it has consequences for the whole value chain.”

German’s WVMetalle industry association, which represents 665 metal companies with 108,740 employees, said there may be “supply bottlenecks” in alumina as well as further price increases.

“The German non-ferrous metal and aluminium industry fears that the sanctions will result in significant shifts in the market in Germany, which could extend through the whole supply chain,” it said. “WVMetalle demands a rapid political solution and exemptions for European importers.”

Rusal supplies about 6 per cent of alumina globally from seven refineries around the world, including the Aughinish plant in Ireland, Europe’s largest.

“If alumina produced by Aughinish is lost to the market and China cannot step up and export material, then some smelters across Europe will be forced to shut,” said Duncan Hobbs, an analyst at Concord Resources, a London-based metals trader. “That’s the reality.”

The abrupt removal of Rusal's alumina from the market comes as supply has also been curtailed from the world's larger refinery in Brazil because of allegations of an environmental spill.

In February, Brazil's environment regulator ordered Norsk Hydro, the owner of the Alunorte refinery, to cut production by 50 per cent following accusations that it had contaminated local drinking water in Barcarena.

Norsk Hydro has said there was no overflow from its refinery and "no indication or evidence of contamination to nearby local communities" from Alunorte as a result of the heavy rainfall.

But this cut has led Norsk to also halve production this month at its adjacent aluminium plant because it does not have the infrastructure to import alumina.

That lack of alumina from the Alunorte refinery has led diplomats from Japan, Canada, France, UK and Germany to urge Brazil to resolve the situation, according to people familiar with the matter.

Additional reporting by Richard Milne in Oslo and Guy Chazan in Berlin