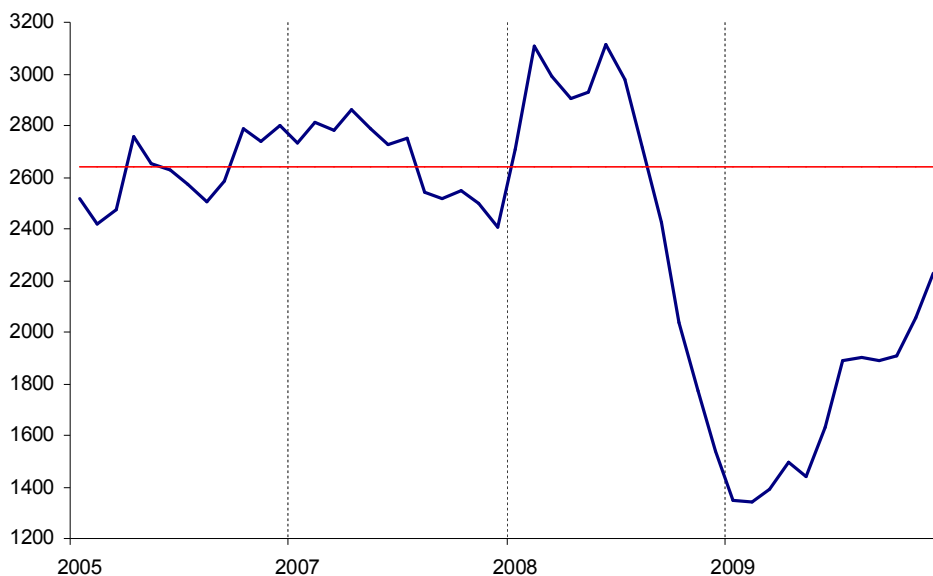


LESS METAL AT HIGHER PRICE – ALUMINUM MANUFACTURERS' ANTI-CRISIS STRATEGY BRINGS POSITIVE RESULTS

BY GALINA KOVALISHINA, HEAD OF THE CORPORATE FINANCE DEPARTMENT, 8 FEBRUARY, 2010

LME aluminum price grew 65% in 2009 following a drastic fall that occurred in the second half of 2008. Yet, the metal price is still lower than the pre-crisis mid-term level (see Figure 1).

Figure 1. LME primary aluminum price (3-month futures contracts), dollars per ton



Source: LME

A drop in the metal demand caused by the global financial crisis prompted large aluminum companies to idle their capacities, either fully or partially. The drastic fall in global aluminum production (-8.8%) amid a less dramatic drop in demand (5.5%¹) caused a rise in aluminum prices in 2009.

Aluminum prices have tended to decline from mid-2008 till last February. The metal makers started cutting down production in 2008, and in the first quarter of 2009 the output reached the minimum. At the time, many manufacturers saw aluminum prices going below the profitability level and tried to minimize losses by further cuts on production. In January 2009 the US' Alcoa corporation, one of the world's largest aluminum manufacturers, announced its plans to reduce the negative impact of the economic crisis on its business – including a 18% cut in primary aluminum production (down by 750

¹ The author's estimates

thousand tons per annum). Owing to lower costs of electric energy and feedstock, Russian aluminum producers faced a less painful downfall: in the first quarter of 2009 the industry leader, Rusal, cut production by 7.2% compared to the same period in 2008.

Many firms revised their plans for the future. In particular, Canada's Rio Tinto suspended the expansion of its Kitimat facility in British Columbia and quitted from the project to construct a plant in Saudi Arabia. The launch of the Boguchany aluminum facility being built under the Boguchany Energy and Metal Association project was postponed until 2012.

In some cases the metal makers resorted to more sophisticated maneuvers. Alcoa did not close its facilities in the northern part of the state of New York signing a contract with the state authorities for the construction of a new aluminum production facility to be supplied with electricity at a lower price.

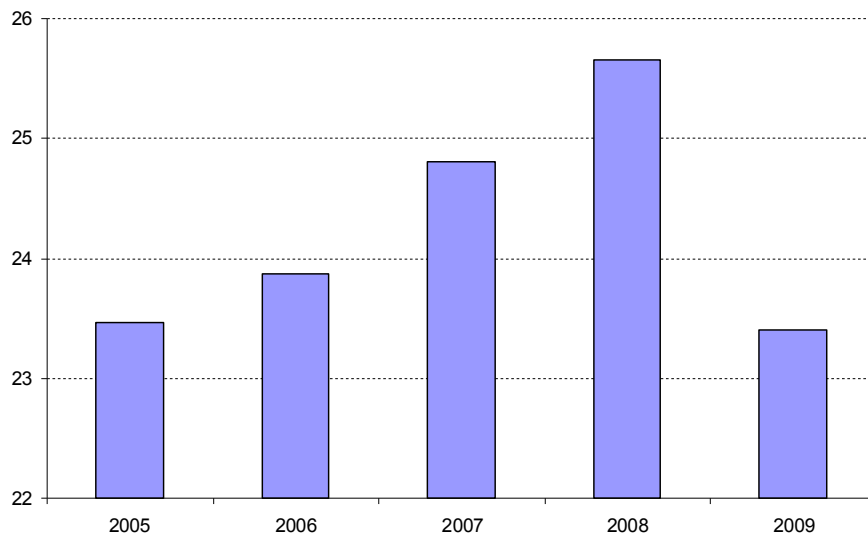
Many analysts forecasted a growth in aluminum consumption in China and India in 2009. This surge could compensate for the decline in demand faced by other regions as well as support the manufacture. Although China saw high demand for the metal in 2009 (a 10% rise on 2008)², the situation has not been markedly improved in general. Faced with falling aluminum prices, China's producers also cut production. According to China Nonferrous Metals Industry Association, facilities with a capacity of 7.1 tons of primary aluminum and 13.67 tons of alumina per annum were halted in the first quarter of 2009. China's largest aluminum company, Aluminium Corporation of China Ltd. (Chalco),³ idled 38% of its total annual alumina capacity in 2009.

As a result, the 2009 world aluminum output dropped to the 2005 level (See figure 2).

² The author's estimates

³ Chalco was established in 2001 by way of promotion by Chinalco, Guangxi Investment (Group) Co., Ltd. and Guizhou Provincial Materials Development and Investment Corporation. It received Chialco's main production and extraction facilities.

Figure 2. Aluminum production, million tons

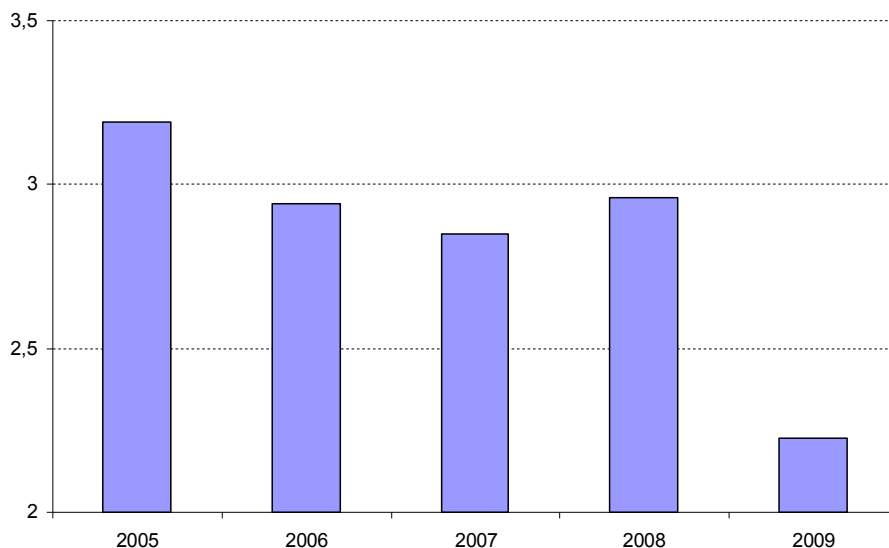


Source: *International Aluminum Institute*

Aluminum makers have been stepping up production starting from the end of the last year. Aluminium Corp of China (Chinalco) restarted the operation of idled aluminum and bauxite facilities in December while the world's largest aluminum plant built by Emirates Aluminium Co. Ltd. (Emal) saw its first output five months ahead of schedule.

The year 2009 can be described as a period of overcoming the crisis in the aluminum industry. Measures taken by companies along with rising demand in Asian countries have led to a 25% reduction in the global aluminum reserves (compared to 2008) (see Figure 3), which gave an additional impulse to the metal price to go up.

Figure 3. World aluminum reserves (at the end of the year), million tons



Source: *International Aluminium Institute*

China and India are likely to see increasingly high demand for aluminum while the developed countries' demand for the metal will recover gradually. Aluminum companies will most likely continue adjusting the demand-supply balance – a practice that proved successful in the past year.