

Canned heat

Atlanta-based Novelis is pushing the envelope when it comes to sustainability and hopes that by 2020, 80% of its production output will come from recycled metal. In an exclusive interview, AIT meets CEO Phil Martens

By Matthew Moggridge*



In an argument about what's hot and what's not, is it ever possible for aluminium to be considered cool? Most of the time, probably not, but if any 'coolness' is in the air, then it's likely to be drifting in from Atlanta, Georgia, where Novelis is headquartered.

Is Phil Martens, Novelis' CEO, the aluminium industry's Jesus of Cool? He could be. Why? Because he's trailblazing 'sustainability' and reinforcing the message that aluminium has a lot to offer the environment – arguably one of the hippest subjects around.

Novelis has grand ambitions, which are more than just pipedreams, and if Martens succeeds in his chief goal – for 80% of the company's production output to be from recycled aluminium by 2020 – then expect a wave of Olympic grade euphoria to ripple through the very soul of the global

aluminium industry, extinguishing the woes associated with high electricity costs and depressed metal prices.

For Martens, the reality of environmental conservation is creeping in globally. "Everybody's reacting to environmental shifts from the weather, temperature profiles, drought and the like and slowly understanding that the CO₂ released into the environment is having an effect," said a relaxed Martens, fresh from a trip to the London Olympics.

For Martens, global concern for the environment, on both a general population and a corporate level, will only increase.

"Once carbon taxation hits, the price of our metal inputs is going to go up and the pressures to produce them will increase," says Martens, adding that profitability will suffer too.

"Given that we are the largest roller and we are independent, we're going to have to secure business on a long-term perspective and take a point of view that's different from the past," he says.

Novelis is in a good position. It is not linked to an upstream primary aluminium manufacturer, which gives it tremendous flexibility to manage its affairs in a completely different way from what has gone before.

"And with that kind of ability to be both agile and, if you will, disciplined about our strategic planning, without being hindered by an upstream linkage, then we can set a course that nobody's been able to set within the industry," Martens believes.

That the business world is taking the environment seriously is of major importance to Novelis. Martens says it is changing the way business looks at

* Editor, Aluminium International Today



Main picture: Novelis' Global Research & Technology facility in Atlanta

Left: Phil Martens, CEO

management. "Almost all of our major customers have a sustainability profile that is in the top five of their strategic initiatives. Sometimes it's number one, sometimes number two or three, and for our business to be compatible with them, we need a similar agenda. As I look at the marriage of our approach and other businesses – primarily our customers and some of our suppliers – compatibility is very high," he says.

Martens is aware that his 80% recyclable content goal is ambitious and wants to make it clear that it's an aspirational target. He knew when he announced last summer that 70% was possible – "if we really do things right" – but when he went for 80% the objective was to push the envelope. "I wanted to look beyond what we could do in theory," Martens says, explaining how companies that stretch themselves and 'realign their perspectives' will drive better sustainable business models – even if they don't know how to get there. "In fact, it's probably better that you don't know how to get there because it stretches your thinking," he ventures.

Since the target was set, Novelis has realigned its thinking. "We are closing or divesting plants or product lines that we know have no ability to utilise recycled material," says Martens, bringing into focus the reality of the challenge ahead. "Last year we were at about 40% recycled content. We're above that at this point," he said, claiming that the business engagement process with Novelis customers today is based purely on sustainable business models.

"All of that has allowed us to really look at the next three years," he says, announcing that Novelis will hit 50% recycled content by the middle of the current decade and conceding in the same breath, that it all leads to one undeniable truth. "We're going to have to change the way the business is run."

Martens says that to reach the 80% target, Novelis will have to rethink how it engages its customers. It will have to rely increasingly upon technical innovation and will use new alloy specifications with a higher recycled content. "We're going to have to invest in how we remelt to get better capacity and how we recycle to get a broader range of recycled material," Martens says.

Getting from 40% to 50% will be 'hardware driven' and in Martens' world, 'hardware' means the asset structure of the business. That Alcan invested properly in building and maintaining its assets before it 'spun-out' Novelis, gave the Atlanta company a much-needed leg-up.

"Not only were the plants well-managed and well-run, they were also geographically positioned pretty well," Martens says, adding that if all the capital

has been deployed, Novelis will reach its target.

"What really drives me now, what's exciting, is the changing dialogue at the top of our company and at the top of our major suppliers' companies."

Sustainability, he says, is the predominant topic of discussion in the business negotiation world of today.

Having made it clear that his 80% target was aspirational rather than set in stone, Martens says he is 'very confident' that Novelis will reach the mid-50% to 60% mark. "That was always the theoretical bandwidth," he adds. "I think we're much farther ahead and getting there than we've ever been, because of the way other businesses are responding to the sustainable initiatives that have to take place.

"The discussions that we're having with automotive companies, with canning companies, with the fillers – such as Coke, Pepsi and AB – are all in the right direction and I think, most impressively, when we opened our plant project in China, the interface we had with the Government was all about sustainable business," he says.

Martens admits that he's a lot more comfortable with the 80% target today than when he first announced it. "I'm confident we'll make every effort to get there," he says without flinching when I dare to mention the possibility of 100%

recyclable content.

"I think that's not something we don't think about," says Martens, mildly reminiscent of Donald Rumsfeld's famous 'known unknowns' comment, but insisting that it's not an unthinkable goal.

We move on to UBCs – that's used beverage cans – and the fact that the USA's total used beverage can recycling rate stood at 58% when AIT met Martens in Atlanta last month.

The US-based Aluminium Association has since announced a 7% increase to 65.1% for 2011, albeit based on increased UBC imports from Mexico and Canada.

Referring to the 58% figure, Martens was not impressed. "That means there's over 40% that go unclaimed," he says. "The United States need to look at getting more aggressive around recycling in general, but also around sustainable packaging, he says, adding that where there is deposit legislation, the figure is above 85%.

Martens believes that if the US recycling rate for UBCs reached 80% nationally, the entire business community would benefit. "I think the United States has got to stand up and do something about it," he says.

Novelis wants to lead the way in UBC recycling in the USA and stand up and say 'we can do better'. When Martens made his 80% announcement, he took on that responsibility. "There's no question about

it," he says.

"We've taken quite a lot of strategic action to open up avenues so we can increase our ability to work cohesively with our business partners," says Martens, explaining how discontinuing the Evermore recycling joint venture with Alcoa was 'a very strategic move'.

"The fundamental strategic goal was to buy directly and not through a middle man. By coupling with Alcoa we could get the scale and through the scale the economies on the pricing side of the business," says Martens.

"It's not that Evermore was not working. It was working quite well, but it was not allowing us to engage exclusively with companies like Coke or exclusively on a global integrated basis, which is something we wanted to do. We had to make a move to innovate our business and our capability to become a more cohesive partner to our end consumers," he says.

Evermore worked well, according to Martens, and Alcoa was a good business partner. Novelis' decision to end the partnership was probably not what Alcoa expected. "I have a lot of respect for the people who worked on the board, but ultimately, when you separate, it's usually because one party has decided they no longer want to participate. We were very clear with Alcoa that our split was a strategic move and nothing to do with the quality of effort put in by both parties," Martens insists.

Withdrawing from Evermore has enabled Novelis to work more exclusively with Coca Cola on a set of recycling initiatives. "Coke has a very compatible sustainability model. They want what they call an entire closed loop system and we're happy to work with them," says Martens. "Without Evermore we can pursue that without any boundaries."

Novelis is also working in conjunction with some of its canning companies on a 100% recycled beverage can using a unique alloy specification. In the light of Novelis' withdrawal from the Evermore Project, the ironically (and some might argue insensitively) named 'Evercan' is infinitely recyclable and destined for global expansion.

Large-scale recycling centres are being developed in key regions of the world as part of Novelis' global recycling programme and headed by Novelis' senior vice president and supply chain offer, Nick Madden and VP of global recycling, Derek Prichett.

"On recycling now we're probably spending about half a billion dollars on new systems and that's just one part of it," says Martens.

Novelis has aligned its technical and research activities and opened a global research and technology centre



Novelis' global research and technology centre features a pilot production line for cans

incorporating a pilot production line for cans. The plan is to integrate the company's production and molten metal processes with engineering, research and technology under the management of chief technical officer, Jack Clark.

Martens says that Novelis is adding casting capacity and recycling capability to meet its own growth initiatives and drive the company's recycling rate. In order to collect scrap metal, Novelis employs a head of recycling in each of the major regions around the world. Each recycling head is charged with the task of developing a proper procurement network.

"In the United States and Brazil there's an established scrap system and we've expanded our collection centres. We have seven or eight of them geographically located around Brazil. In the States we deal with large brokers of scrap and similarly in Europe," says Martens.

"We're now expanding to look at all aspects of scrap in anticipation of the



launch of our recycling plant in Nachterstedt, Germany, which will come on stream in about two years," Martens said, adding that a recycling operation in Korea is planned, but not on the same scale as Nachterstedt. Novelis is also launching a recycling centre in Vietnam.

Strong recycling growth

Martens expects strong recycling growth in Asia as the UBC population in the region grows. "We'll have to set up our operations in those countries and then ship the scrap into our main recycling system in Korea," he says.

The recycling plant in Nachterstedt, Germany, is Novelis' largest recycling project, costing an estimated US\$250 million. The facility will be capable of recycling UBCs and 18 other different kinds of scrap material. "Technology in recycling is no longer focused just on bringing in the UBCs – shredding, heating and burning them – it's now handling all sorts of

aluminium material sources, be it tyre casings, construction equipment, even horseshoes," Martens explained. "You have to sort and bring out the other metals that are in there to get down to the pure aluminium – that's the expansive nature of what we're trying to do here."

Martens talks of the need to develop new sensing and melting techniques in order to separate out different metals in, say, a scrapped car. "We get down to the metal and it might be pure aluminium, but it might have other stuff in there and that will be a by-product we'll sell to somebody else," he says.

Aluminium – the material of choice

Moving away from canning, Martens argues that aluminium is definitely the material of choice, in terms of design, in the advanced development stages of both the auto sector and personal electronics. "It's gone from being a 'think-about' to a very appealing product," he says.

For Martens, the real growth is not packaging, which represents about 55% of Novelis' business, but the auto sector, which he believes will grow dramatically over the next decade. Another major growth sector is personal electronics. "Just think about Apple alone. The iPad didn't exist four years ago and now Apple buys 50kt of aluminium every year when before it may have bought 5kt," he says.

"We've got to remember that aluminium is still a very young product. It started making headways in the seventies, but accelerated in the eighties when beverage cans went from steel to aluminium. Today there's a broad understanding of how the product can be used," Martens says.

Where automotive is concerned, Martens is optimistic that more OEMs will turn to aluminium. "We're beginning to see large-scale OEMs make big investments on aluminium and it's going to expand.

"I was in the auto industry for 20 years and aluminium was always known as the lowest cost weight-reduction option, but the difficulty was you had to really get in on a large-scale and go all the way back to the drawing board, and be willing to invest in rethinking engineering and manufacturing standards – the welding, the adhesion, the durability requirements, the styling – and that was always a huge barrier to entry.

"Steel was so deeply integrated into the way things were, but then Jaguar Land Rover made one of the first aluminium-intensive vehicles. That was the first time an OEM went through and produced for volume manufacturing and it's been a success. They've gone through two or three cycles to really fine tune it, and now they're launching a whole new family of all-aluminium vehicles," says Martens.

As a result, he expects rolled aluminium

for the automotive industry to go from being six to seven per cent of Novelis' business to about 20% and says that 33% of new capacity is destined for the automotive element of the company. "We'll probably have to add another 500kt of automotive sheet before the end of the decade," he says.

Such optimism translates into global expansion and an estimated US\$2 billion of capital expenditure. "For a downstream rolling company, that's the largest cap-ex deployment in a short period of time in Novelis' history," says Martens.

Novelis is clearly top of the class as far as parent company, the Aditya Birla Group is concerned; and that's why it has been able to attract such a high level of cap-ex.

When Martens was approached to take on the role of CEO at Novelis he was attracted by a number of key elements. "Whenever you look at a company you've got to look at the hardware and the software of the business. On the hardware side, the asset structure of Novelis was world class."

Software-wise the business lacked the stability of a focused leadership team. "You can fix software easier than you can fix hardware," says Martens, explaining how Novelis had a stable customer base and a strong business portfolio (of which 60% was packaging-focused).

Responding to change

"What's been surprising is the aptitude of the management team to change its thinking and reorient itself in a short period of time," he says, praising the support and determination of the board to restructure and rebuild the business around a sustainability model.

"I was surprised about the capacity of this company to respond to change – that's usually the hardest thing to get through to people," says Martens.

He describes the company as an \$11 billion start-up. "It's a brand new company," he says and when I suggest that Novelis probably represents the cool side of the aluminium industry, he admits that he doesn't want to work in 'an old, sludgy, dingy, smoke-stacked' company."

"I'm very optimistic about the future of aluminium and I think the brighter days are ahead of us. There are challenges – sustainability is a huge issue – and we don't know how big it will get by the end of the decade. Companies issued their sustainability reports 10 years ago, but they didn't go anywhere. Now they are fundamentally the drivers of business strategy and that, coupled with the need for broader CSR, is going to play out. Like any business you have to work every day and there's no excuse for not performing because you're only as good as your last quarter." ■