

Realistic optimism

Oleg Mukhamedshin, deputy CEO of UC Rusal, the world's largest producer of aluminium, talks exclusively to Aluminium International Today. **By Matthew Moggridge***

Oleg Mukhamedshin, deputy CEO of the largest aluminium producer in the world, the Russian company, UC Rusal, told *Aluminium International Today* that he was cautiously optimistic for the future of the global aluminium industry.

"We are optimistic because we think that the situation can't get any worse," he said in an exclusive interview with AIT.

Mukhamedshin said the aluminium industry was 'quite healthy' in terms of consumption, thanks to huge infrastructure projects in developing countries like China and that, despite the slow-down, growth in aluminium consumption generally was 'excellent'.

Speaking in London, Mr Mukhamedshin said, "It takes time to improve the situation and also hard work from all the market participants. The key here is to understand that we produce our products for our customers, but we have to produce value for our shareholders who are more focused on the rational use of capital," he told AIT.

"Our shareholders do not like over-capacity, so I think the key and the target for all commodity producers is not how to spend money, but how to return money back to their shareholders and make their facilities profitable by increasing the value of their assets. The only way is a rational approach to production."

He said the situation was similar to 2008/2009 when there was a significant drop in production.

"It's also similar to what happened right after the financial crisis when all the producers made substantial cuts in production and then demand recovered," he added, explaining how even loss-making and idle capacity went back to the market.

"It was a mistake because, during the crisis, there was quite a significant stock of aluminium accumulated and, unfortunately, producers didn't allow for it to be digested by

consumers. So the stock is still there and at the same time capacity utilisation has increased significantly from around 70-75% post crisis up to 83-85% today. On top of that, additional capacity is building, mostly in China, but also in the Middle East, so all-in-all you have an over-production crisis," he explained.

China, he said, was a different story because it is balanced in terms of production and consumption. "We do not expect China to start exporting aluminium because China is a net importer of power, but the rest of the world requires more discipline and that is why Rusal made the decision to cut 300kt of production this year and for two-to-three years ahead," he said.

In terms of

operational efficiency and cost control – top priorities for Rusal – Mukhamedshin said, "I think we do a lot on this front and if you look at our 2012 annual results presentation, it is clear that Rusal's cash cost has only gone down since the second quarter of 2011 and we finally reached \$1934 per tonne in the fourth quarter of 2012. So, obviously, despite growing power tariffs, and those elements of our costs that are linked to oil prices – petroleum coke, pitch, caustic soda and so on – we managed to reduce the cash cost, which is quite important. Also, we have made a lot of efforts to reduce working capital and achieved a 20% reduction over 2012. We're quite successful, but all these measures do have certain limits. From the improvements point-of-view, we're almost squeezing the lemon," he said.

Asked what steps Rusal was taking to reduce the environmental impact of its aluminium production, Mukhamedshin said, "We produce our aluminium from hydro and there is no better or cleaner source of energy in the world, so it is our competitors and our colleagues in the industry that have to improve, especially in China where they continue expansion of coal-fired power generation."

In late 2012, Rusal, jointly with its partner RusHydro, launched a new hydropower plant in Siberia at Boguchany and is continuing to improve its aluminium production technology.

"We've extensively invested several billion dollars over the last five years on modernising our Soderbergh smelters and gas treatments and have reduced emissions considerably at several locations.

"We continue investing money in emissions reduction and improving our existing technology," he said. As such the company continues to implement measures to meet its voluntary commitments to reduce greenhouse gas emissions to 50% of its 1990 levels by 2015. In 2011 it had already managed to reduce these emissions by 47% compared to 1990.

Asked whether he thought the benefits of aluminium in its use-phase far outweighed the energy-intensive nature of the light metal's production, he said, "Well, first of all we can recycle 100% of the metal so basically once produced, you can use it forever, which is very important. Second, it is very easy to transport and to

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store. Aluminium ingots left in the open air will not corrode. It's a light metal that helps a lot in the construction industry and it saves money in the automotive sector as car manufacturers fight to lower the weight of vehicles in order to reduce energy consumption. Aluminium is being used more and more in automotive, transportation and even the transmission of power as a substitute for copper, which is three times more expensive," he said.

"In Australia we found a new niche of investors, so-called 'green investors', funds with a mandate to invest in companies that improve the environment. They were interested in us because we make aluminium from water, not coal like the Chinese and Australians. It is important that you understand that Rusal is very different. We are very similar to Norsk Hydro, but obviously a bit bigger," he said.

Mukhamedshin said that Rusal has a recycling programme in place and a number of facilities busy recycling 'the main production of aluminium' in addition to producing aluminium from scrap. "We have a target to develop this business," he said.

While Novelis in the USA aims to produce 80% of its production from recycled metal by 2020, Rusal, being an upstream producer, is more focused on value-added products, which Mukhamedshin claims accounted for 39% of total production last year.

For Rusal, an important aspect of environmental improvement is red mud. "Alumina refineries around the world generate a lot of waste in terms of red

mud," Mukhamedshin said. "I think that processing red mud is one of the most important elements and second is Rusal's efforts in modernising its existing aluminium production technology."

Rusal is modernising its Soderbergh smelters to bring them in line with dry anode technology.

With 85% of its production base in Siberia – where 80% of the available power source is hydro-electric – Rusal is in a fortunate position in terms of the environmental impact of its production. The company buys power from En+, which is a major shareholder in Rusal, and the rest comes from the market. "We are interested in securing long-term contracts with the main power producers and, as you know, we are involved in our own power generation through the construction of new hydropower plants," he said.

Russia's domestic market

Mukhamedshin said that Russia's domestic market for aluminium was growing and that he expects it to double in size over the next seven years. "Russia is currently considering huge infrastructure development projects that require aluminium and also new railroads connecting major European cities. All those mega projects require aluminium and clearly, the car manufacturing industry is growing too and there is a lot of new

demand coming from this sector," he said.

Rusal is ideally located to exploit markets in both Europe and Asia and has an understandably strong interest in the Chinese market. "The problem for the Chinese aluminium industry is expensive power and the fact that 35% of the industry is loss-making. We are negotiating with a number of Chinese partners to establish joint ventures in Russia where we have a green and sustainable source of power and our partners can have an equity participation," said Mukhamedshin.

The company has signed a Memorandum of Understanding with the Aluminium Corporation of China (Chalco) detailing its intent to co-operate in areas such as research and development of new aluminium production technologies, development of bauxite resources and investments in integrated hydro-powered aluminium production.

"This is our strategy and China is the largest market for our products worldwide," he said, adding that Rusal expects China to increase consumption by nearly 9-10% per annum.

China has developed energy-efficient new capacity, but is still subsidising loss-making smelters in its central provinces. "It's the right time for a more rational approach and we see signs from China that support their ambitions to make this industry more efficient," he said.

The Chinese understand the situation, he said, and state-owned companies are starting to limit their production and cut inefficient capacity. ■