The crowded aluminum business

Hard metal

Jan 7th 2010
From *The Economist* print edition

High-cost smelters face a bleak future

ON THE face of things, the aluminum business is recovering swiftly from a nasty tumble. In 2009 the parlous state of the global economy pushed spot prices for the metal down below $1,500 a ton. In recent weeks they have risen above $2,200—a 14-month high. Demand is picking up, particularly in India and China. Chinalco, China's biggest aluminum-maker, which had idled 10% of its capacity, said in December that it would restart it all. Yet according to Michael Widmer of Bank of America Merrill Lynch, an investment bank, aluminum still has "horrible fundamentals"—in part because outfits like Chinalco continue to open smelters.

Those who consider the industry's recovery superficial point to the 4.5m tons of aluminum stashed in warehouses around the world, far above the typical level of around 1m tons. Even when the price was near its lows last year, the futures market was anticipating a rebound this year. So speculators could buy stocks on the cheap, sell futures contracts at higher prices, and simply store the metal until the contracts fell due. Much of that metal will come back into circulation in the coming months.

Demand, of course, should also rise. This year China, the world's biggest consumer, will probably get through some 14m tons. Rio Tinto, a mining giant, forecasts that China's consumption will more than double to 31.5m tonnes by 2020. But the rest of the world's aluminum producers are hardly rubbing their hands with glee. The country has huge unused production capacity of around 7m tons a year. Although the government wants to close less efficient smelters to save energy, local officials, keen to preserve growth and jobs, are slow to follow its edicts. In principle, Chinese smelters are supposed to pay a market rate for the power they consume, which can account for as much as 40% of costs. But they still benefit from cheap land, labor and loans, and often from "captive" power plants fuelled by abundant local coal. Analysts reckon that China, which unusually imported large quantities of aluminum last year, will again produce a small surplus in 2010.

Overcapacity is not restricted to China. On December 1st smelting started at a plant in Abu Dhabi that, when completed, will be the world's biggest. Other Gulf States, which are also keen to diversify their oil-based economies, and tend to enjoy cheap electricity generated from local reserves of natural gas, are also building smelters. Last month Alcoa of America, one of the world's biggest aluminum-makers, announced a joint venture with Maaden, a Saudi Arabian mining firm, to build what they claim will be the world's lowest-cost smelter (presumably thanks to favourable power deals from the government). Qatar and Oman also have plans for big new projects. Dubai and Bahrain already have big smelters. By 2020 the Middle East will account for 12% of global capacity, reckons the Gulf Aluminum Council, an industry body.

Meanwhile, outside China and a few other developing countries, demand for aluminum is projected to grow only slowly. The upshot is that high-cost Western aluminum producers are in trouble as more low-cost capacity comes on stream. Rio Tinto recently closed Anglesey Aluminum in Britain after its power contract expired. Many other European smelters could close because they are unable to strike cut-price new deals for electricity as older contracts run out. The European Aluminum Association fears that two-thirds of the continent's smelters are under threat. High electricity prices are also likely to put a stop to new aluminum projects in South Africa. Outside China, at any rate, a producer smelts or sinks according to its position on aluminum's cost curve.

November 16, 2015, 12:30 pm

Too little, too late for the US aluminum industry?

By Richard Talley, The Hill

Fact: 155,000 workers are directly employed in the U.S. aluminum industry, generating more than $65 billion a year. While the figures are impressive, accounting for all secondary jobs created and adding up all indirect economic benefits resulting from the production of the silver-grey metal, more than 670,000 people and some $152 billion (or 1 percent of US GDP) can be traced back to aluminum. But now, because of a combination of tax rebates, cheap energy prices, lax regulatory environments and immoral business practices, Chinese aluminum producers could send US smelters into bankruptcy, axing hundreds of thousands of jobs in the process. Alcoa, the largest US producer already announced the closing of three smelters, leaving it with just one facility in the entire country. Century Aluminum, a Glencore-owned company, saw 82 percent of its market capitalization wiped off and posted losses of $56 million that will lead to a dramatic cut in output capacity and further job losses.

However, unlike manufacturing, the American aluminum industry is not on its deathbed, a victim of globalization that should just be left to expire. Indeed, much of China's comparative advantage is purely artificial and comes from lower operating costs derived from softer industrial standards. In the case of aluminum, a third of its ultimate price rests on energy costs. Beijing continues to fuel a large portion of its aluminum plants with coal – far cheaper, albeit dirtier, than what American companies are using. And when that isn't enough, the government steps in to rescue its loss-making producers. Recently, a Chinese aluminum producer on the brink of closure, secured lower energy prices from a state-run electricity company in order to keep them afloat.

Unlike China, the U.S.' Clean Power Act (CPA) has encouraged local aluminum producers to power their plants using green alternatives to coal, which has resulted in numerous aluminum sustainability initiatives and a significant reduction in the industry's greenhouse gas emissions. However, this has pushed up energy prices, eroding the paper-thin competitiveness U.S. producers had enjoyed over their Chinese counterparts.

Alongside the White House, Congress should take notice, and plot a course to offer some measure of relief to beleaguered producers while also strengthening dialogue with China to innovate its own industry. While Obama has stayed true to his commitment to fight climate change and stood by the environmental initiatives he has implemented, a move to cleaner energy sources at home needs to be coupled with a hefty push abroad to ensure China sticks to its environmental promises.

The upcoming Climate Change Conference in Paris (COP21) offers some hope – Obama will have a vital opportunity to win over guarantees of ending coal usage with Chinese President Xi Jinping. If properly implemented, Beijing's current pledge is fine as far as it goes, but it is a long way from being a one-size-fits-all solution. Recent revelations that China is burning 17 percent more coal than previously announced should give pause to those who think the winding down of coal usage in the PRC may happen without a gentle nod from other nations, in spite of Beijing's commitments to reduce emissions of carbon dioxide, the main pollutant resulting from coal usage.

By getting a firm commitment to wind down coal usage, and not merely slow its growth, Obama will satisfy the green lobby and help convince the nation's industries that he cares for troubled business and jobs in America. But as change in China comes very slowly, it would also be prudent to look within the industry at home for solutions. A totally level playing field with China is still a long way off – no matter what commitment is obtained from Xi in Paris.

At this point, it is unclear whether members of Congress can muster the political will to take much needed actions, such as raising import duties for Chinese primary aluminum products or offering incentives to U.S. aluminum producers to move towards cleaner sources of energy and lessen the financial pain of adopting higher standards in the midst of a sector-wide downturn. Similarly, Congress should consider some manner of incentives for those plants already using greener sources of electricity – perhaps a rebate on money spent on green alternatives. And while we wait for China to get its house in order as regards to the environment, money should be budgeted to aid aluminum producers in dire straits. It has been done for other industries – banking and automobile producers spring to mind.

Let's just hope that whatever solutions are tried, it's not too little too late for America's aluminum producers.

Wed Nov 4, 2015 | 9:13 PM EST

Century Aluminum targets China as U.S. smelters fight for survival

By Luc Cohen

NEW YORK Nov 4 (Reuters) - At least one U.S. aluminum producer may be hunkering down for a trade dispute with top-producer China, as the beleaguered aluminum industry fights for survival amid high labor and energy costs and prices at a six-year low.

Century Aluminum Co, controlled by Swiss trader and miner Glencore Plc, is leading an aggressive campaign to fight China's aluminum exports that it says threatens the U.S. industry.

Century faces high stakes as last week its share price plunged as much as 26 percent after the company reported a bigger-than-expected loss. It has also announced plans to close capacity and shutter one plant.

Alcoa Inc also said it will close three of its four smelters in the country, which would leave just four U.S. plants operating, although Alcoa has smelters in lower-cost regions like the Middle East.

"The United States is going to lose the aluminum smelting business in just a matter of time if this continues," Century spokesman Kenny Barkley said. "We cannot sustain low aluminum prices like this for very long."

Some U.S. aluminum producers say they cannot compete because some Chinese aluminum shipments are avoiding export taxes.

Century and Alcoa have complained that Chinese "fake semis" are labeled as semi-fabricated products to avoid an export tax on primary aluminum only to be re-melted into primary by the end user.

Chinese exports are not the only reason for higher shipments into the United States. The strong U.S. dollar, demand from the automotive industry and record high U.S. physical prices, called premiums, have also attracted imports.

Still, the aggressive tone of the campaign marks a distinct shift from the more cordial approach taken by the U.S. aluminum industry over the issue this year.

The Aluminum Association has asked the U.S. Trade Representative and the U.S. International Trade Commission to investigate allegations of misclassification of Chinese aluminum exports.

Last month, the association's head met with her Chinese counterparts in October to discuss the issue.

In February, the United States initiated a dispute about China's export subsidy program including textiles, agriculture and metals with the World Trade Organisation.

U.S. aluminum extruders have accused Zhongwang Group, the world's second-largest producer of aluminum extrusions, of evading U.S. import duties. The company has denied it.

STEEL VS ALUMINUM

In fact, Century's rhetoric and strategy is more familiar to the steel industry, which has long cast China as a villain and fought multiple lawsuits against the world's top producer for dumping anything from coated sheet to cold-rolled steel products.

"They're taking a big page out of the steel books," Daniel Dimicco, former chairman and chief executive officer of U.S. steelmaker Nucor Corp and the industry's front man for complaints for trade disputes.

"The aluminum industry has been very different than other industries, like the steel industry, and has always resisted individual country actions against aluminum imports," said Gregory Spak, an international trade lawyer with White & Case in Washington.

Century is the sole member of a newly created pressure group, the China Trade Taskforce, that accuses China of circumventing duties, illegally subsidizing its industry and killing thousands of American jobs.

On the group's website, chinatradetaskforce.com, a video depicts marching Chinese soldiers against foreboding music, alongside footage of Century workers in Kentucky who may lose their jobs due to production cuts.

One voice over claims that "everyone in the United States is at risk right now."

"We're trying to demonstrate to the U.S. Trade Representative that this is an issue that deserves their attention," said Will Dempster of Washington lobbying firm McBee Strategic Consulting, which is spearheading the campaign.

The Aluminum Association has distanced itself from the campaign, saying Century does not represent the U.S.aluminum industry. Many of its members have operations in China and may fear retaliation from a major dispute, lawyers say.

Century may be able to seek trade action against China on its own, trade law experts said.

Any party that represents 25 percent or more of a U.S. industry has standing to petition the ITC for a trade case. If all the currently planned curtailments and closures go through, Century's planned production of around 237,600 tonnes would represent more than 30 percent of U.S. output.

Alcoa, a 127-year-old US industry collapses under China's weight

November 3, 2015

For 127 years, the New York-based company has been churning out the lightweight metal used in everything from beverage cans to airplanes, once making it a symbol of U.S. industrial might. Now, with prices languishing near six-year lows, it's wiping out almost a third of U.S. domestic operating capacity, Harbor Intelligence estimates. If prices don't recover, the researcher predicts almost all U.S. smelting plants will close by next year.

While that's a big deal for the U.S. industry and the people it employs, it doesn't mean much for global supplies. Alcoa's decision to eliminate 503,000 metric tons of smelting capacity accounts for about 31 percent of the U.S. total for primary aluminum, but less than one percent of the global total, according to Harbor. For more than a decade, output has been moving to where it's cheaper to produce: Russia, the Middle East and China. A global glut has driven prices down by 27 percent in the past year, rendering American operations unprofitable and accelerating the pace of the industry's demise.

"You've seen a fair clip of closures in the U.S., that is just unfortunate, but a development that's very difficult to change," Michael Widmer, head of metal markets research at Bank of America Corp. in London, said in a telephone interview. "It means you'll just have to purchase from somewhere else."

That's exactly what Jay Armstrong, the president of Trialco Inc. in Chicago Heights, Illinois, is doing. The company, which turns aluminum into finished manufactured products, now buys about 80 percent of the supplies it turns into car wheels from overseas. That's up from 40 percent five years ago, he said.

"It's not the kind of business where we're going to pay more and buy all American," Armstrong said in a telephone interview. "It's too competitive a business to do that."

Overseas Advantage

Aluminum is down 19 percent this year to $1,501 a ton on the London Metal Exchange. The metal touched $1,460 last week, the lowest since 2009, and most American smelters can't make money when prices are near $1,500 or below, Austin, Texas-based Harbor estimates. Plants overseas usually have the advantage of lower labor costs, cheaper energy expenses and weaker domestic currencies that favor exports to the U.S.

While output has been moving abroad for some time, the game changer in the past year has been the domination of China, where ballooning output has compounded a global surplus and driven prices so low that Bank of America estimates more than 50 percent of producers globally lose money. Smelters in the Asian country are still profitable, helped by higher physical premiums in the region.

China probably will account for 55 percent of global aluminum production this year, up from 24 percent in 2005, according to Harbor research. The U.S. has gone in the opposite direction: from 2.5 million tons in 2005 to 1.6 million in 2015, it said.

Still, not all U.S. smelters will benefit from closing down. Citigroup Inc. says some domestic operations with long- term energy contracts will have to pay regardless and are better off making the metal than simply paying the energy bill. Some plants also have access to cheap hydro power, said David Wilson, an analyst at Citigroup in London.

"You have to be losing a lot of money to make it worth while to effectively shut down," Wilson said in a telephone interview.

Energy contracts haven't been an impediment for Alcoa. When Monday's plans are undertaken, it will have closed, divested or curtailed 45 percent of smelting capacity since 2007.

Alcoa to Cut Smelting Capacity by 531,000 mt

Published: Friday, 24 February 2012 20:22, Written by E&MJ News

Alcoa has announced plans to close or curtail 531,000 metric tons (mt), or 12%, of its worldwide smelting capacity to improve its production-cost position.

Closure of the company’s smelter in Alcoa, Tennessee, USA, and two lines at its Rockdale, Texas, USA, smelter, account for 291,000 mt of the capacity reduction. Curtailments at its smelters in Portovesme, Italy, and La Coruña and Avilés, Spain, account for another 240,000 mt.

At Portovesme, Alcoa will begin a consultation process to permanently close the facility. The La Coruña and Avilés curtailments are planned to be partial and temporary.

The curtailments are expected to be completed during the first half of 2012. Alcoa’s alumina production will be reduced across its global refining system to reflect the curtailments in smelting as well as prevailing market conditions.

At the time of the announcements in mid-January 2012, aluminum prices had fallen more than 27% from their peak in 2011.

Alcoa reported a loss from continuing operations of $193 million in the fourth quarter of 2011 on restructuring charges associated with the closures and curtailments, lower aluminum prices, and continued market weakness. Excluding the net negative impact of restructuring and other special items, the loss from continuing operations was $34 million.

For full-year 2011, Alcoa reported income from continuing operations of $614 million, more than double its 2010 results. The company ended the year in a strong cash position, with $1.9 billion cash on hand. It expects global aluminum demand to grow 7% during 2012 and forecasts a global deficit in primary aluminum supply.

Alcoa to Curtail Eastalco Smelter on December 19 Because of High Power Costs; Company Will Continue To Explore Competitively-Priced, Long-Term Power

PITTSBURGH--(BUSINESS WIRE)--Nov. 23, 2005--Alcoa (NYSE:AA) today announced it will curtail aluminum production at its 61 percent-owned Eastalco aluminum smelter in Frederick, Maryland on December 19, 2005 because it has not been able to secure a new, competitive power supply for the facility.

Alcoa's cost of curtailment, approximately $14 million pre-tax, will be included in the company's fourth quarter 2005 results.

Alcoa issued possible lay-off notices to approximately 600 employees in October, saying a curtailment was possible if a new power arrangement was not achieved soon. Approximately 100 employees will continue to be employed while the plant is prepared for curtailment, but that will drop to approximately 25 employees over time for site holding and maintenance activities. Alcoa will also continue to homogenize, cut to length, and distribute billet cast at other Alcoa locations using Eastalco's existing equipment, maintaining billet capacity to serve customers.

While the smelter is curtailed, the company will continue to work with government and local officials to seek ways to secure a competitively-priced, long-term power supply for the 195,000 metric ton per year (mtpy) smelter.

"Unfortunately, we have not been able to secure a competitive power arrangement to date, so we will be forced to curtail the plant," said Geoffrey Cromer, Vice President Operations - U.S. Primary Metals. "Many people -- our union, elected representatives, members of the community, and, first and foremost, our dedicated, loyal employees -- have worked to help us find a short-term legislative option that would allow us to pursue a longer-term solution to save the plant and these jobs. We appreciate every bit of effort that they have put into that challenge. Despite all that work, a legislative solution has not succeeded yet, and we have received no indication that, if we were to get a successful vote, that it would be signed into law."

"We will continue to work with those in the community to pursue longer-term power options and take steps to ease the impact on our employees and the community as much as we can," said Cromer.

Eastalco has been operating under a power arrangement from Allegheny Power, that will expire on December 31, 2005, following notification by Allegheny. The current rates paid by Eastalco are approximately 40 percent higher than the global smelting average paid for electricity. Discussions with power providers in the Pennsylvania, New Jersey and Maryland (PJM) market area which services Eastalco are suggesting retail market rates that would increase Eastalco's rates to more than three times the global average.

About Alcoa

Alcoa is the world's leading producer and manager of primary aluminum, fabricated aluminum and alumina facilities, and is active in all major aspects of the industry. Alcoa serves the aerospace, automotive, packaging, building and construction, commercial transportation and industrial markets, bringing design, engineering, production and other capabilities of Alcoa's businesses to customers. In addition to aluminum products and components, Alcoa also markets consumer brands including Reynolds Wrap(R) foils and plastic wraps, Alcoa(R) wheels, and Baco(R) household wraps. Among its other businesses are vinyl siding, closures, fastening systems, precision castings, and electrical distribution systems for cars and trucks. The company has 131,000 employees in 43 countries and has been named one of the top three most sustainable corporations in the world at the World Economic Forum in Davos, Switzerland. More information can be found atwww.alcoa.com

Alcoa Looks to the Future in Quebec and Angola

Published: Tuesday, 10 January 2012 16:15

Written by E&MJ News

Alcoa has approved the next phase of a five-year, $2.1-billion investment plan for its Baie-Comeau, Deschambault and Becancour smelters in Quebec and has signed a memorandum of understanding (MoU) with the government of Angola to explore development of a 750,000-mt/y aluminum smelter using power from hydroelectric facilities under consideration by the government.

The Quebec investment, announced November 7, 2011, is expected move the Quebec smelters down the aluminum cost curve by 13% and to contribute to Alcoa's goal of achieving an overall 10% improvement in its operations. The plan will also increase production capacity by 120,000 mt/y and reduce greenhouse gas emissions.

The plan includes 25-year power contracts for all three smelters and allows the aluminum smelter in Baie-Comeau to immediately undertake the last engineering phase of its modernization project, with plans to have a new potline in service by the end of 2015. In addition, the preliminary engineering phase of the Deschambault smelter's amperage increase project will be launched as early as the end of 2011.

As part of the modernization at Baie-Comeau, the older smelting pots using Soderberg technology will be replaced by an all-new electrolysis potline with production capacity of 160,000 mt/y. These enhancements will reduce the plant's greenhouse gas emissions by 40%. At Deschambault, amperage will increase to 405,000 amperes by 2016, increasing the plant's annual capacity by 25,000 mt/y.

Alcoa's MoU with the government of Angola was announced October 27, 2011. Under the agreement, both sides will begin a series of feasibility studies to determine the viability of the aluminum smelter project. The MoU provides for a 12-month exclusivity period to negotiate a power contract and cooperation agreement. If the project moves forward, first metal from the smelter would be produced in 2020.

Angola has significant capacity for developing hydroelectric facilities and intends to use the capacity to attract energy-intensive industries to the country, the Alcoa statement said. The country has committed to allocate 1,300 MW of firm power capacity for the aluminum industry.

"Alcoa is interested in pursuing projects that lower our cost position," Ken Wisnoski, president of Alcoa's Growth Group, said. "We believe the Angola government's proposal to provide hydroelectric power offers great potential, and we are pleased to have the opportunity to work together on feasibility studies."

Mining mergers

Prospects for a thaw … with subscriber comments

Jun 4th 2009 From *The Economist* print edition

Revival of metal prices also resuscitated merger talks

The Search for TIER One Assets

An exceptionally candid subscriber comment (in broken English) on the following article should be read first: "the ***chinese are developing the african mines*** *from scratch they bought the mine and are making the train and the port all the cost is in yuan pretty soon they will not need the big miners for nothing bhp, vale, and the* ***whole bunch better offer themselves to the chinese before the african mines start****." [my bolds and itals]*

THE giants of the mining industry might be forgiven a little wistfulness. Just over 18 months ago rumours were rife that a wave of mega-mergers was on the way, the product of persistently high commodity prices. This culminated in a bid by one of the world's biggest diversified miners, BHP Billiton, for another, Rio Tinto, in November 2007. In the wake of BHP's approach to Rio more huge deals seemed likely. Might, for example, Vale, a Brazilian giant, bid for Xstrata, which has its headquarters in Switzerland, or could Xstrata bid for Anglo American, based in Britain?

Even as steel mills around the world fall silent, mining's rumour mill is cranking up again. Recently talk has centred on whether BHP will revive its failed bid for Rio. A spoiling Chinese investment, restrictive competition rules, Rio's debt burden and nervous regulators would make this difficult, though not impossible. Others moot that Xstrata and Anglo might join forces. In the biggest deal so far this year, Grupo Mexico this week offered $2.9 billion to regain control of Asarco, an American former subsidiary that is in Chapter 11 bankruptcy protection, topping rival bids from a hedge fund and Vedanta, India's biggest mining firm.

Although the hubbub about mergers sounds familiar, almost everything else has changed for the worse for the mining industry since those heady days. Back then takeovers were tempting not least because the industry was producing shovel-loads of cash and record valuations made purchases with shares alluring. Since then, however, commodity prices have thudded back to earth as the world economy has slumped and China's red-hot growth has cooled off.

The reversal of fortunes for miners has been staggering. Copper, which at its peak in July 2008 traded at nearly $9,000 a tonne, slumped to below $3,000 at the beginning of this year. Other metals have suffered a similar clobbering. And in late May the annual negotiations to fix a benchmark price for iron ore between its three biggest producers (Rio, BHP and Vale) resulted in Japan's steelmakers securing a price cut of 33% from last year.

That is not enough for China’s steelmakers, which are abandoning the 40-year-old system for fixing the price of iron ore and demanding an even fiercer cut. Some steel firms have also taken advantage of the low price to invest in iron-ore mines of their own.

Perhaps the best indication of the shifting balance of power within the industry is the endless upheaval at Rio. Chinalco, an aluminium company controlled by China’s government, at first bought 9% of Rio to foil BHP’s takeover bid, which steelmakers feared would leave a single firm with a near-monopoly in iron ore. BHP later abandoned the bid, at the height of the credit crunch, because of concerns about financing its target’s vast debts. That crushing debt forced Rio to strike a further deal with Chinalco in February: in return for $19.5 billion the Chinese firm would receive shares in some of Rio’s most profitable mines and convertible bonds that would allow it to raise its stake in the parent firm to 18%.

Uproar from shareholders, who were not given the chance to participate in the fund-raising, forced a renegotiation to limit Chinalco’s stake. The wrangling may even cause the deal to collapse. It was struck when commodity prices were near their trough and looks too generous now that they have recovered somewhat.

Copper now trades at nearer $5,000 a tonne. The price of iron ore may be falling, but this year’s drop in benchmark prices is the first since 2002. Even if China forces through a 40% cut, that will merely bring the price back to 2007 levels. Mining firms’ shares, which plummeted in response to the credit crunch, have perked up a lot since the beginning of the year. Rio’s have doubled in price since January and almost trebled from their low point late last year.

Light at the end of the shaft

The barren landscape of an open-cast mine is unlikely ground to nurture green shoots, but most analysts and industry insiders reckon that they can see plenty. Growth may have slowed in China and India, but the urbanisation that drives demand for copper and steel seems bound to resume before long. Meanwhile, many governments’ attempts to revitalise their economies involve big infrastructure schemes that will require lots of metal. Senior executives at mining firms say that the rise of China and other developing countries means that the industry will not suffer a flashback to the 1980s and 1990s, when supply and demand remained in balance and commodity prices stayed low.

In part, that is because supply looks surprisingly tight. Mining companies dashed to raise production while prices were soaring. But rapidly rising earnings masked huge cost increases, particularly in fuel and wages. So when the fall in commodity prices hit earnings, mining firms responded with swift and deep cuts, closing mines and deferring new projects. Anglo has said that it will halve capital expenditure this year. McKinsey, a consultancy, expects that investment across the industry, at $62 billion, will be roughly half what it was last year and will fall again in 2010.

Cutting capital expenditure causes the pipeline of new projects to dry up faster. Lower exploration budgets mean that the big miners are less likely to unearth the “tier one” assets they crave—long-lived and low-cost deposits that are nearly certain to remain profitable no matter what happens in fickle commodity markets in the seven to ten years it takes to bring them into full production. And politics tends to compound these problems. Mining giants were enraged by forced renegotiations of existing deals last year by governments in such places as Congo, Guinea and Mongolia and are now warier of making big investments in risky parts of the world.

“Junior” miners, exploration companies that provide another source of future assets by taking on the risky discovery and early development of new mines, have been brought to a standstill by the dearth of debt to finance their activities. Perhaps wisely, big miners have eschewed using their precious resources to mop up medium-sized companies on the cheap, as some had predicted. Many of these firms, which tend not to produce ore as cheaply as the “majors”, could go out of business.

The proportion of existing mines in flabby middle-age is growing as the rate of discovery of new tier-one assets has slowed over recent years. For example, BHP reckons that 35% of Chile’s copper production capacity is from mines that are more than 50 years old and 70% from those more than 20 years old. As mines age, ore grades decline, since the best stuff is usually dug up first.

The big mining companies all believe that high commodity prices will return, although no one is prepared to say when. The easiest way of acquiring more tier-one assets to exploit during the next boom, while stripping out costs into the bargain, may be the revival of the mega-merger.

Subscriber COMMENTS

nzprimeminister wrote: June 9, 2009 1:04

For gods you idiots ie.(AussieLouis) grow up, Australia is among the most open & accountable societies in the world, my daughter is half asian. We accept thousands of immigrants from all over the world. Nobody mocks the Chinese, we were one of the first countries in the 70's to open a dialogue with China. When you show a little more maturity in your debate and stop taking everything as a personal attack on China, you will be taken seriously. Australia makes no apologies for not wanting to sell the farm to foreigners, maybe that will change when we can buy the same in China. Regarding the poor economy australia comments .. we Australians built a modern democratic and equitable nation for all its citizens in 200 years .. we inherited a wonderful peice of real estate and the mineral rights as well... so get lost!

jaderdavila wrote: June 8, 2009 21:36

the chinese are developing the african mines from scratch they bought the mine and are making the train and the port all the cost is in yuan. pretty soon they will not need the big miners for nothing bhp, vale, and the whole bunch better offer themselves to the Chinese before the african mines start

AussieLouis wrote: June 6, 2009 5:45

In the coming trade war between China and Australia I wonder who will win. Australians have only display xenophobia and lack of honesty in trade deals and feel that they can laugh and mock the Chinese with impunity. Perhaps, the right wings of Australian politics believe the Chinese are too stupid or cowardly to response?

Rio Tinto Retreats From Aluminum, $8 Billion in Alcan Assets on Block

By: Reuters 13 Nov 2011 | 7:44 PM ET

Global miner **Rio Tinto** signaled a major retreat from its Aluminum business on Monday, putting an estimated $8 billion worth of assets up for sale across six countries, only four years after buying Aluminum giant Alcan for $38 billion.

Rio Tinto[RIO 47.40 ▲ 0.70 (+1.5%)] said it planned to sell 13 assets, including smelters and alumina refineries, in a move immediately interpreted as a way of diverting yet more resources to iron ore, which now accounts for nearly 80 percent of group earnings.

"It's all about returns and these big miners, Rio included, are always re-evaluating their businesses. And iron ore is currently a real cash cow for Rio Tinto," said Gavin Wendt, senior mining analyst for Mine Life in Sydney.

The sale, which would leave Rio Tinto's remaining Aluminum business focused mainly on its more profitable Canadian operations, is designed to help the group more than double its Aluminum earnings margins to 40 percent by 2015.

"The only way they can achieve that is by getting rid of all these assets which can never be world class," said Peter Chilton, resources analyst at Constellation Capital Management.

Rio Tinto's shares jumped 3 percent to a month high of A$70.29 on the news, with fund managers applauding the move away from a poorly performing business with a gloomy outlook compared with its iron ore unit, which enjoys a 70 percent profit margin.

Rio Tinto has been in Aluminum since the 1950s and ranks itself as the world's largest primary producer after the ill-timed Alcan deal in 2007, but it could no longer ignore the business's big hunger for capital and relatively meager returns.

'No Rush to sell'

Rio Tinto was careful not to appear overly keen to sell and made it clear that Aluminum remained a core asset, saying global demand was relatively good and that it would consider making further investments in quality Aluminum assets.

"We're going to be in no rush (to sell)," Rio Tinto Alcan CEO Cote told reporters in a phone briefing after the announcement. She declined to say whether Rio Tinto was already in talks with potential buyers.

The company said it would look at a range of options for divesting the assets, which could include floating them as a separately listed company, spinning off shares in a new company to Rio Tinto shareholders or finding buyers for the assets.

"It's a well thought-out plan to realize value that might not be recognized in the current Rio share price and should deliver benefits to shareholders in the medium to longer term," said James Bruce, a portfolio manager at Perpetual.

Industry analysts said smaller buyers were more likely to be interested in these assets than major producers such as Russia's **UC RUSAL** [0486.HK 4.88 ▼ -0.01 (-0.2%)] or Chinese state-owned **Chinalco**. Like Rio Tinto, the big producers are all chasing higher-return assets.

Aluminum prices have tumbled nearly 15 percent in the past quarter. UBS rates Aluminum as a "least preferred" commodity and sees prices falling another 8 percent in 2012.

Rising Chinese Aluminum output has undermined global Al prices. "The aluminum industry has been suffering because of over-capacity coming from China," said Henry Liu, of Mirae Asset Securities in Hong Kong. "This has led to very thin margins. It's very difficult to compete with Chinese producers."

Rio Tinto said it would sell assets in Australia, New Zealand, France, Germany, the US and Britain to focus on its hydro-powered plants in Canada. It also planned to keep its Weipa bauxite mine in Australia.

Bauxite is used to make alumina which is in turn used to make Aluminum, a light-weight and flexible metal used in a vast array of industrial and consumer products, from packaging and aircraft manufacturing to electrical cables and insulation.

The group said a new unit, Pacific Aluminum, would hold the six Australian and New Zealand units being put up for sale, including Australia's Gove bauxite mine and alumina refinery and Tomago smelter and its New Zealand smelters.

Deutsche Bank analysts estimated the Pacific Aluminum assets were worth $6.5 billion, though some others doubted this, citing uncertainty over Australia's planned carbon tax. The tax will raise power prices for energy-hungry Aluminum smelters.

Rio Tinto's plants in France, Germany, the United States and Britain that would be put up for sale would continue to be managed by Canada-based Rio Tinto Alcan.

In 2011, Rio Tinto forecasts its share of bauxite, alumina and Aluminum production to be 35.8 million tons, 9.2 million tons and 3.9 million tons, respectively.