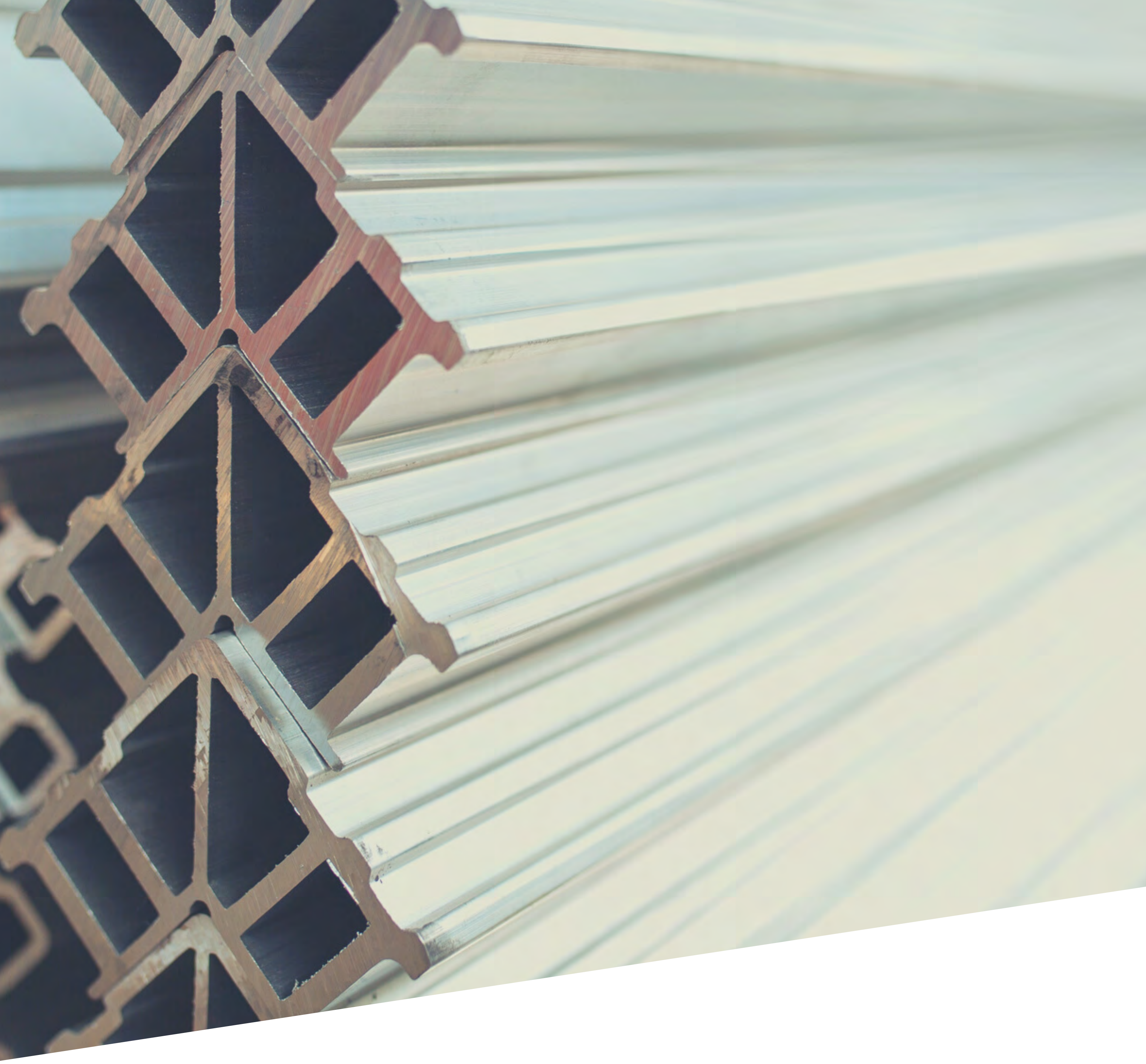

IMPACTS TO UK ALUMINIUM INDUSTRY FOLLOWING RUSSIA/UKRAINE WAR

PREPARED BY CRU CONSULTING FOR THE ALUMINIUM FEDERATION

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INTRODUCTION

This report has been commissioned by The Aluminium Federation (ALFED) in partnership with CRU International Ltd, seeking to examine the impact of the Russia/Ukraine war on the UK aluminium industry.

Politically, and morally, pressure has inevitably increased to ensure that all materials used within the UK have a clear path of origin and do not in any way financially support the Russian state. It's also vital to understand intended end use, as well as potential re-use.

Earlier this year (March 2023), the US government announced a 200% tariff on Russian aluminium. Elsewhere, the EU has been working hard in the background to find solutions that do not include Russian primary.

ALFED's main concern is to protect the UK aluminium industry, support UK production and ensure the impact on the wider supply chain is minimised. We need to establish full accountability for all materials imported and exported, at all stages of their lifecycle, as they pass through the UK system and beyond.

The report clearly outlines that short-term impact on the UK market is likely to be minimal, but also raises several important questions. From the long-term viability of material sourcing and examining the issues challenging future sustainability, to questioning what UK government support will be forthcoming to support the wider agenda, it highlights what we – as an industry – need to be tackling now.

For more information, visit **www.alfed.org.uk**.

1. The removal of Russian aluminium in the UK will only have minimal impacts to the local market in the short-term, longer-term sourcing questions likely to remain

Due to Russia's overall small share of UK imports of unwrought aluminium (HS code 7601), the impacts to the UK market are expected to be only tangential, especially throughout the rest of 2023 and into 2024. Overall, weak economic conditions have driven primary aluminlum demand to continue to decrease, with levels not expected to reach pre-pandemic levels over the medium term. This follows the May 2023 announced ban on Russian origin aluminium, which will attempt to prevent the material of Russian origin from being imported to the UK through other countries.

The impacts of this removal of material from the UK market are expected to be the following:

1. Impacts on the UK aluminium industry are expected to be only marginal, especially in the short term, due to a weak aluminium market where the forecast demand decreases are expected to be larger than Russia's share of primary metal imports to the UK.
2. Over the medium term, sourcing for the UK and Europe more broadly comes into question as Russian material is now being sent to mainly China and Turkey away from the rest of Europe. Because the UK has historically had less of a significant reliance on Russian aluminium historically, existing suppliers are likely to have the capacity to meet the 18kt increase in primary metal requirement by 2027.
3. While the primary metal requirement in the UK is expected to fall ~11 kt in 2023, recycled metal consumption is likely to increase, thus making up the gap left by Russian metal.
4. Exports of unwrought aluminium from the UK have fallen within the first six months of 2023, particularly to Germany and other trade partners in mainland Europe.

Historically, Russian trade flows of primary aluminium have been the fourth or fifth largest material flow into the UK annually. Thus, removing Russian aluminium from the UK market will likely have less impact than larger importers of Russian aluminium, such as the US, Germany or Norway. In September 2022, imports of Russian primary aluminium ceased to nearly zero with the ongoing war between Russia and Ukraine. In 2023, only 24 tonnes of unwrought aluminium were imported from Russia through June 2023.

Considering this removal of Russian material, imports of primary aluminium between the first six months of 2022 and 2023 are down nearly 50kt from 124kt in the first six months of 2022 to 78kt in the first six months of 2023. Considering this, the UK is importing semis (HS Code 7601) from places like China (133kt through June 2023) and Germany (130kt through June 2023), as for primary aluminium imports, continued imports from existing suppliers in the UAE, Iceland, Netherlands and Norway continue to be imported at near pre-2023 trends. However, South Africa, which imported 53kt, has only imported ~7kt throughout 2023.

These overall decreases in primary metal imports have led to no new significant suppliers of material into the UK for primary metal.

UK Aluminium Industry Key Metrics, '000 tonnes
August 2023
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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Semis consumption	925	950	927	753	814	830	799	825	865	898	946
Imports	703	719	676	560	594	635	611	631	666	697	739
Exports	263	293	260	185	191	202	210	215	220	227	235
Net exports	-440	-426	-415	-375	-403	-432	-401	-416	-445	-469	-504
Semis Production	397	411	402	318	352	338	338	349	360	369	383
Balancing item/melt loss	29	37	28	10	11	11	11	11	12	12	12
Total metal requirement	426	448	429	329	363	349	349	361	371	381	395
Recycled metal consumption	213	224	222	167	169	162	173	182	189	194	203
Primary metal consumption	213	224	207	162	195	185	176	178	183	186	192

DATA: CRU Aluminium Market Outlook July 2023

Effective in March 2023, the US Customs and Border Protection (CBP) imposed a 200% tariff on Russian metal. However, the material was not outright banned.

In this proclamation, importers must provide "information necessary to identify the countries where primary aluminium used in the manufacture of aluminium articles imports…and derivative aluminium articles…are smelted…and derivative aluminium articles are cast" and which material would be considered Russian origin and be subject to the 200% duty.

However, in its implication for the UK, the US did not sanction Russian material, allowing it to be exported to willing buyers and not be subject to additional penalties for handling/trading Russian material.

This policy change from the US does remain moot, since the UK has since banned Russian material following the announcement from the US.

Tariff on RUSSIAN METAL

1.1. Key questions for the UK aluminium industry for 2023/24

The key question for the UK aluminium industry throughout 2023 and 2024 would be that of primary metal sourcing since Russia has effectively shifted its focus from the European and UK markets towards Asian markets, particularly China, Turkey, South Korea, and Mexico in North America.

1. Where will the UK continue to source primary aluminium from, and will there be new suppliers in the market that have traditionally not targeted the UK for export?
2. If UK cannot source additional material through alternative avenues, can Russian material be imported through a different source? (e.g., China or Turkey)?
3. Where may the UK source aluminium once economic conditions improve?
4. If there is a ban or increased tariff schedule on Russian material, where would the UK/European buyers source material?
5. If the UK is unable to source additional primary aluminium, what other aluminium products could the UK source and from where would materials be imported from?
6. What are the costs and challenges of switching to alternative sources of aluminium?
7. Could the UK's only primary aluminium smelter, Lochaber, increase production to near-capacity to source material locally? Capacity estimates show that Lochaber would have ~14 kt of available capacity to supply local customers with primary metal. This would represent ~50% of the historical import volumes from Russia.
8. To promote material security, will the UK government support the industry through the ban and or beyond in the form of financial assistance or bilateral trade agreements to remove barriers to trade with alternative sources of material?
9. Will prices be inflated due to increased freight costs from new suppliers who are geographically more distant than Russian suppliers? While freight costs have fallen from post-pandemic highs, the additional distance from UAE, South Africa, or India can increase consumer costs for primary aluminium.
10. How will continued high inflation in the UK limit end-user demand for aluminium-containing roducts, limiting the need for additional suppliers outside of Russia.

Where will Russian Primary Metal go in 2023?
August 2023
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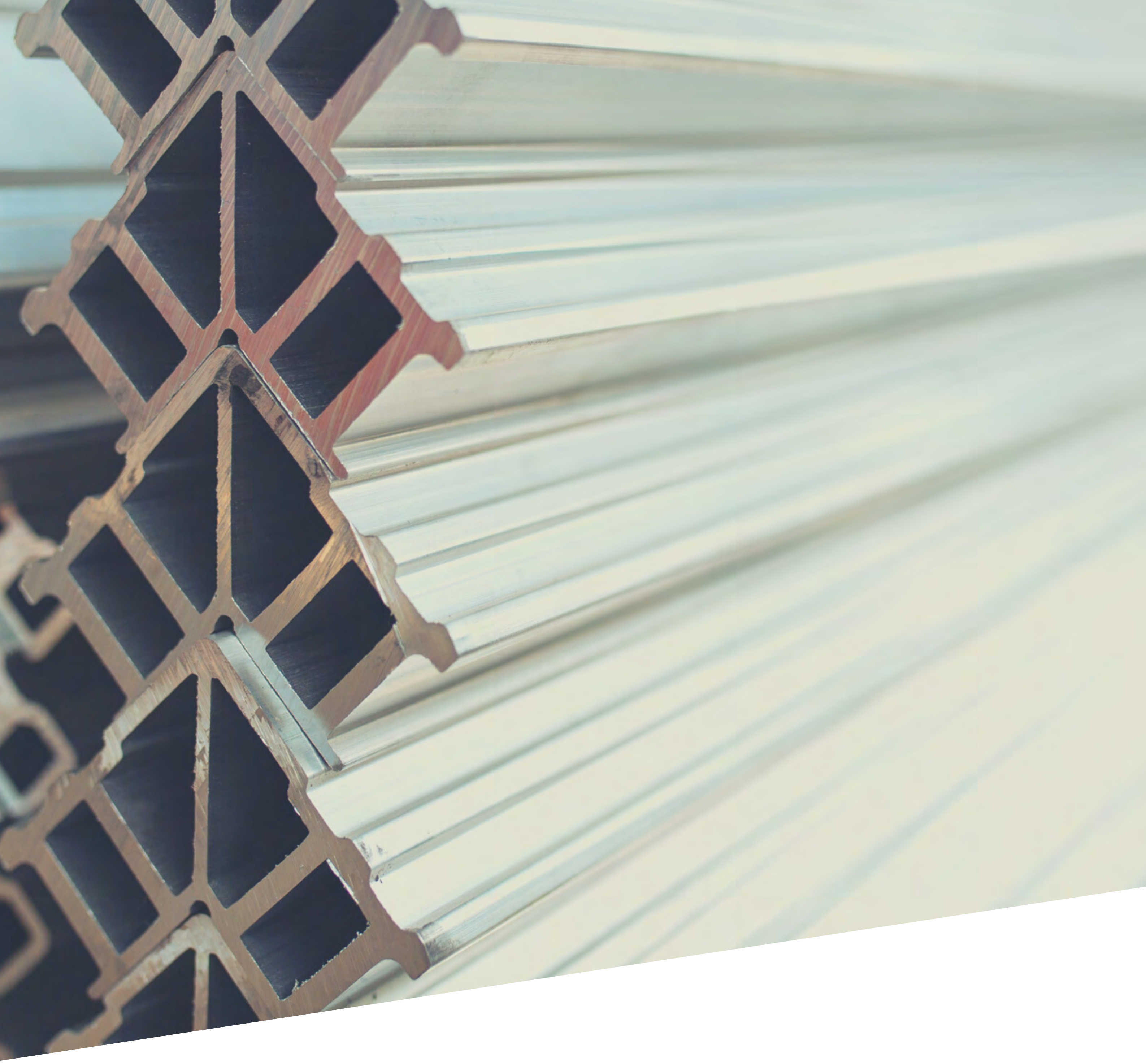
Region	2021	2022	2023
EU+Other Europe	1,132	1,059	792
NE Asia	625	545	488
Turkey	477	403	552
China	324	519	881
USA	215	192	25
Mexico	112	143	116
Other Asia	238	207	145
Other countries	101	48	15
UK	15	12	0
Total	**3,238**	**3,115**	**3,014**

DATA: S&P Global, CRU, Chinese customs. Note: implied exports from reporting country import data - some countries do not report



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