ALUMINIUM FEDERATION

Parliamentary Breakfast Meeting
Tuesday, 23 March 2010

Introduction by the Aluminium Federation Immediate Past President, Mr Henry Dickinson, Managing Director, Norton Aluminium Ltd

On behalf of the members of the Aluminium Federation, I should like to welcome you to this breakfast and thank you for your attendance. I must again thank particularly Albert Owen for sponsoring this meeting on our behalf, enabling us to be here, and for his continued enthusiastic support of our industry through the APPG.

Our aim is to raise and debate issues that are important to the UK aluminium industry. We have 2 speakers today:

Gareth Stace, Head of Climate and Environment Policy at the Engineering Employers' Federation and Chair of the Manufacturers Climate Change Group – I need hardly tell you what we can expect him to talk about!

Our second speaker, Rick Hindley, Executive Director of the Aluminium Packaging & Recycling Organisation will talk about the challenges & opportunities for boosting the recycling of aluminium packaging.

It falls on me to give you a snapshot of where our industry is now:

As you might expect the position generally is considerably better than this time last year, but the picture is mixed across our various sectors.

Primary aluminium has recovered from lows of $1200/T to current highs of $2250. Our remaining primary producers at Lynemouth and Lochaber are investing in new power equipment and actively investigating carbon capture & storage. BIS and DECC are fully informed of these activities. Unfortunately our primary sector has had to buy large amounts of carbon units in the past year as the reduced level of activity and significant extra power associated with pot shutdowns and start-ups has reduced power efficiency and meant that CCA targets could not be met – a double whammy when prices and volumes were sharply reduced and hardly helpful to UK manufacturing.

We hope and assume that electrolysis will continue to be exempt from CCL after 2012, but are braced to expect a reduction in the CCL rebate from 80% to 65% on other energy usage.

Secondary Aluminium demand has exploded in the past 2 months. The EU has lost approx 500,000 tonnes of capacity in the past 18 months. Diecasters are struggling to find sufficient supplies for expanding order books as smelters themselves cannot secure sufficient scrap for their needs. Prices for both scrap and ingot are rocketing and there is a disconnect between material sold in the physical markets and that traded on the London Metal Exchange as stocks in LME warehouses – despite being at near record levels - are simply not available for purchase by consumers having been locked up in complex financial deals.

The export of scrap remains the single biggest issue facing the secondary sector. Representations made by Pat McFadden on behalf of the industry to DEFRA have again come to naught with DEFRA insisting that the enforcement of Transfrontier Shipment of Waste regulations would be a restraint of trade.

Our stockholders report that apart from a weak January caused by the inclement weather, the year has generally got off to a good start. In general customers and distributors are holding low stock so demands are often urgent, but mills themselves had reduced capacity and are having to extend production lead-times. The building sector remains very weak.

The finishing and extruding sectors, both of which are heavily exposed to the construction sector remain very concerned about the health of major customers. The reduction in activity has also affected the supply chain with a sharp reduction in the level of technical expertise, especially in UK-based but foreign owned suppliers – perhaps foreshadowing the replacement of UK production capacity. Despite the weak £ imports now take a 60% share of the UK extrusion market.

The rolling sector has seen continuing delays in the aerospace market, but with 4 years worth of orders in hand at Airbus demand remains good. Urgent requirements from the MOD for Afghanistan continue to buoy demand, but earlier anticipation and authorisation of such requirements would make life easier for producers! Demand from the construction sector remains very weak also, but is considerably worse in Southern Europe. Demand from the packaging sector is stable and can sales were slightly up in 2009 and show further growth so far in 2010. The physical availability of both primary and secondary aluminium in Europe limits both capacity and price competitiveness.

Aluminium Packaging Recycling – you will hear more about this shortly, but 2009 was a good year for such recycling with PRNs / PERNS (evidence notes of recycling) up 20%.

On a more general note it was with dismay, although hardly surprise, that I read the recent National Strategic Skills Audit which found that between 2001 & 2009 the numbers employed in electrical assembly manufacturing fell by 70%, metal workers fell by 57%, yet conservation and environmental protection officers grew by 124% and educational assistants grew by 91%. Do we not understand that we have to make money in order to afford these unproductive jobs?

I would like to remind you of a ranking I referred to at the ALFED Dinner last November – the UK is still the world's 6th largest manufacturer. The Aluminium Sector is an important part of that. I passionately believe we should continue to have a vibrant and successful manufacturing sector in the UK and that we – industry and politicians – should ensure that this is the case by creating the right infrastructure and legislative environment for such businesses to prosper. We must nurture them and listen to their needs. We must not sacrifice them on the altar of climate change or consign such industry to the scrap heap and put all our hopes on being the "world's leading high-tech manufacturer". I know that this message is not unique to the aluminium sector and believe that we must ensure our voices combine with other manufacturers to resonant louder and more widely within government.

It therefore gives me pleasure to introduce our first speaker, Gareth Stace, whose membership goes well beyond our own.