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Companies and Markets
Sanctions ripple round Rusal's world

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Two moments expose the cascading calamity triggered for Rusal and its allies in aluminium by the inclusion of its controversial principal, Oleg Deripaska, on a list of seven Russian oligarchs, 12 businesses and 17 government officials that were added last Friday to a US government list of "Specially Designated Nationals".

That Deripaska is persona non grata in the US is not new. The billionaire has been unable to enter the land of the free since his visa was revoked in 2007, while he has reportedly been a subject of US state department interest since as far back as 1998.

It has been reported often enough that successive high-level US investigations have linked Deripaska to organised crime in Russia and to involvement in the bloody Aluminium Wars that left dozens dead.

For as long as these allegations have floated around Deripaska has been loud in their denial. On Friday he described his SDN listing as "groundless, ridiculous and absurd".

But Washington, for reasons cynical or not, has now significantly raised the stakes and the crushing consequences are rippling rapidly around the Rusal world. The unprecedented action means US individuals and companies that hold debt or equity of the targeted entities will be required to divest those interests to non-US citizens or companies by May 7.

Problematically for Rusal & Ors, that divestment is going to be made all the more difficult by the fact that the SDN regime prevents the sale of those interests to anyone on the list and the legislation arrives with extra-territorial reach. So the pool of people interested or able to acquire equity or debt in any of the entities associated with Deripaska could end up being very limited indeed.

Effectively the law means that the US Office of Foreign Assets Control can pursue non-American individuals and companies that do business with the people, the companies or the government officials named on the SDN list. And, as a result, the decision to target allegedly unsavoury Russian billionaires, their companies and the economy that fathered them has resulted in an outbreak of defensive due diligence right around minerals, metals and commodities trading globe.

As Barclay's told its UK client base on Tuesday: "The new sanctions also have material fundamental implications for the companies concerned around their operations and financing activities, as well as their major shareholders, joint ventures, partners, related parties and the global commodities market."

On Wednesday, for example, Rio Tinto Alcan boss Alf Barrios confirmed he had instituted an audit of direct and indirect relationships with Rusal to assess whether they might leave it in breach of the sanctions.

Rio direct exposure to this risk is demonstrative of the complexities of the trail of complication the US sanctions have opened. Rusal owns 20 per cent of a joint venture called Queensland Alumina Limited. Rio owns the rest and operates a refinery that has capacity of 3.95 million tonnes annually. The bauxite needed to make that alumina arrives from Rio owned mines in Queensland's Gulf country and Rusal is a customer for the alumina that is produced from the joint venture.

Rio's challenge then is to work out whether any of those arrangements, and a good deal more apparently, creates US regulatory risk. But Rio's review is not one of our big two moments. As it turns out, a bigger Rusal supporter of much longer standing is Glencore.

The Swiss trader and miner owns 8.75 per cent of what is the world's biggest aluminium producer outside of China and Glencore is also a heavy trader in the aluminium produced by the biggest producer outside of China. Chief executive Ivan Glasenberg is said to have described Deripaska as one of the smartest guys he has ever met.

But a level of business co-dependence and an apparently shared personal admiration did not stop Glencore's man making a bee-line for the exit on Monday with Glasenberg's announcement that he would step down from the Rusal board as part of an urgent company-wide analysis that aims to immunise the business from the risk of Rusal infection.

Glencore's other first response was to suspend, for the moment, plans revealed last October that would have seen it swap its Rusal position for a position of more influence in Deripaska London-listed EN+ Group. That transaction would have seen Deripaska recover majority control of Rusal.

Glasenberg is not alone in leaving the board of Rusal's Hong Kong listing. A former US ambassador to the UK, Philip Lader, resigned at the same time as Glasenberg. And they were joined in retirement on Wednesday by a pair of understandably cautious Russian businessmen, Maksim Goldman and Daniel Wolfe. But the depopulation of its board likely sits but a passing humiliation for Rusal when compared to the other fearsomely indicative development that was confirmed to the Hong Kong exchange in the immediate wake of confirmation of the Goldman and Wolfe retreats.

On Tuesday, the London Metals Exchange took steps to "temporarily" close the doors of its market-making warehouses to Rusal produced aluminium. To put it bluntly, the LME has moved to avoid a situation where Russian metal that cannot find a place in the now sanction-constrained market ends up simply being dumped into warehouses.

The market operator said the open-ended suspension on the suite of Rusal brands will begin on April 17. From then owners will need to "demonstrate to the reasonable satisfaction of the LME" that any Rusal-branded metal being placed on to warrant "will not involve any breach of the sanctions".

The LME action was taken to calm concern expressed by traders and others that dealing in Rusal warrants for metal produced after the April 6 SDN listing might "constitute sanction risk".

"The aim of the temporary conditional suspension is to ensure that metal potentially subject to the sanctions does not enter the LME network, and provides time for the LME to work with regulators, members and clients to establish a longer-term view on the continued listing of the Rusal brands," the LME said before noting that the decision had been taken in the name of ensuring there was a "fair and orderly market".

Talking of markets, after a wee recovery through the morning in Hong Kong, Rusal's share price was again retreating by Wednesday afternoon. The company's shares have lost 56 per cent of their value since Friday and there is gathering speculation that Deripaska will turn to the Russian government and his long-time ally Vladimir Putin for the state succour that might be needed to survive the SDN shock.

Hydrogen powers up

Now, while we are talking of clarifying moments, the idea that the Latrobe Valley might end up as a frontier for the hydrogen economy has always seemed, well, just that little bit fanciful.

No doubt, producing exportable quantities of hydrogen from the valley's treasure trove of brown coal to feed next-generation zero-emission fuel cells in Japan seems like a wonderful idea. And sure there are plenty of encouraging projections about how rich the hydrogen economy will be by 2050.

But even the reassurance offered by a high-level agreement between Japan and Australia forged during Prime Minister Turnbull's visit to Tokyo in January failed to dent our conviction that we were looking at soothing science fiction more than anything else.

But our scepticism is fading fast with news that a consortium of Japan Inc and the commonwealth and Victoria governments that has been steered since 2014 by Kawasaki Heavy Industries is about to announce a $500 million investment in a pilot plant to be built in some level of proximity to AGL's Loy Yang power station.

So big is the news that two of the central protagonists of the power stations wars, Prime Minister Malcolm Turnbull and AGL boss Andy Vesey, will deliver themselves to the heartland of old-fashioned coal by 11.15am on Thursday to share in the spoils of their announcement.

Half a billion is a lot to throw at a crowd-pleasing story. So we have to accept that pilot might well translate into a commercial plant that will see brown coal exported as hydrogen. And the chemical corollary of that is potentially pretty exciting for another government-fostered slice of carbon science that many remain sceptical about.

Extracting hydrogen from coal will generate oodles of carbon. One attraction of the Latrobe Valley is its relative proximity to the rapidly emptying Bass Strait oil and gas fields. Those offer arguably secure storage for the carbon that this project simply has to capture to get off the ground.

In other words, to deliver on its potential to sit at the vanguard of the hydrogen economy the Latrobe Valley will also have to become home to Australia's first large commercial carbon-capture project.

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