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Rio calm as Russia sanctions hit alumina refinery

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Rio calm as Russia sanctions hit. Rio Tinto has moved to assure workers at its big Queensland alumina business that their futures are secure as the mining giant grapples with the fallout from US trade sanctions.

The company announced on Friday night that it had declared force majeure over several contracts in its aluminium arm as a result of the sanctions, leaving output from QAL's Gladstone aluminium refinery under a cloud.

The US Treasury and State Department earlier this month announced sanctions against a host of Russian companies — including Rusal, Rio Tinto's 20 per cent partner in QAL — in response to what they described as malign activity.

In addition to its 20 per cent stake in QAL, Rusal held offtake agreements over the bulk of the output from the Gladstone refinery.

While it remains unclear as to whether Rio Tinto will be able to sell aluminium from QAL to other customers, or whether Rio Tinto would look to buy out Rusal to clean up the ownership structure, a spokesman for the mining giant yesterday said it would be business as usual at the refinery.

"We continue to work through the implications of the sanctions. However, at this point we do not expect significant impact on the QAL operations," the spokesman said.

Rio Tinto has been reviewing the impact of the sanctions given the close links between Rusal and its aluminium operations.

The ties between Rusal, which is owned by billionaire Russian oligarch Oleg Deripaska, and Rio Tinto also extend to offtake contracts between the two at Rio Tinto's smelters in France and Iceland.

Rusal also relies on Rio Tinto for bauxite to feed into Rusal's big Aughinish alumina refinery in Ireland. Aughinish is the biggest alumina refinery in Europe and sources bauxite from several producers.

On Friday night, Rio Tinto said it had reviewed its arrangements with parties impacted by the sanctions.

"As a result of the imposition of these sanctions, Rio Tinto is in the process of declaring force majeure on certain contracts and is working with its customers to minimise any disruption in supplies," the company said.

Force majeure is a contractual instrument that allows parties to walk away from an agreement in the event of unexpected developments outside their control. It is most commonly invoked in the event of major weather disruptions or mine outages.

London's The Times newspaper reported yesterday that Rusal was expected to launch a legal appeal in Britain which if successful would reduce the impact of the US sanctions, citing unnamed sources close to the LME.

The US sanctions have set off a wave of panic in global aluminium markets, given Rusal is the second-largest aluminium producer in the world.

The price of aluminium traded on the London Metal Exchange soared 12 per cent last week, the biggest weekly move in the contract's 30-year history, as aluminium consumers and traders scrambled to respond.

The price of alumina — the feedstock used to make aluminium — has already been rising over the past year after key alumina refiners in China were forced into temporary shutdowns on environmental grounds.

The new rules also prompted the resignation of Glencore managing director Ivan Glasenberg from the Rusal board, where he had been a director since 2010.

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