

Aluminium smelting costs: A value-based costing (VBC) approach

Helena Norrgren¹, Sion Roberts² and Kelly Driscoll³

1. Senior Consultant, Aluminium Costs Team

2. Senior Consultant, Aluminium Costs Team

3. Managing Consultant, Aluminium Team Leader

CRU Group, London, United Kingdom

Corresponding author: sion.roberts@crugroup.com

Abstract

The cost structure of the aluminium metal supply chain is global in nature and naturally energy intensive. This presentation will provide an analysis of the structure of primary aluminium smelting operating costs, and discuss some of the key cost drivers and trends. A review of CRU's value based costing (VBC)TM methodology will help to identify how its different costing concepts are essential for analyzing the business performance and competitive positions of individual production facilities, as well as understanding the behavior of the industry over the business cycle. The VBC approach is designed to achieve four key tasks - commodity price forecasting, asset valuation, competitive analysis and performance improvement – which are arguably the most critical ones faced by industry management on a continuing basis. An increasing trend at smelter casthouses has been to shift some or all of their primary aluminium production away from standard ingot and towards the casting of "value-added" products in order to improve competitiveness. CRU's methodology is ideally structured to assess this trend and show how it is impacting the smelting business cost curve.

Keywords: Primary aluminium; smelting operating costs; value based costing (VBC)TM methodology.