

By the middle of this year more than $\frac{2}{3}$ of ongoing construction projects for aluminium smelters and power stations is expected to be completed. When these projects wind up in 2009, Iceland's aluminium total production will be roughly 800 thousand tonnes per year (tpy), an increase of 530 thousand tpy from this year's 273 thousand tpy. Plans have been aired for two new smelters, in Helguvík in southwest Iceland, for Norðurál (Century Aluminium) and near Húsavík in north Iceland for Alcoa. An extension to the Alcan plant in Straumsvík, southwest Iceland, is also on the agenda. More progress has been made on some plans than others, but all are at the exploratory stage, so that it is still very uncertain when they will be launched or even if they will materialise at all.

Alcan has concluded siting agreements with the landowners around Straumsvík and an environmental impact assessment (EIA) has been made without being challenged. An operating permit has also been issued, so that official permission to go ahead is at hand, apart from a construction permit from Hafnarfjörður municipal authority. Also, an agreement has been reached on the sale of up to 40% of the additional electricity required for the proposed extension. Current production capacity is 180 thousand tpy, and the estimated 280 thousand tpy extension will give a total production capacity of roughly 460 thousand tpy one year after it is completed. Construction of the extension is provisionally timetabled to begin in 2008 and finish in mid-2010. Power supply development would need to begin earlier to enable the smelter to go on stream then. Agreements have not yet been made on sale of the remaining 60%.

In the beginning of June, Norðurál signed a memorandum of understanding with Suðurnes Heating (Hitaveita Suðurnesja) and Reykjavík Energy (Orkuveita Reykjavíkur) on supply of 250 MW of energy to a new smelter at Helguvík. It is assumed to be built in two stages. Work on Phase 1, with a capacity of 150 thousand tpy, could conceivably begin around mid-2010. Phase 2, adding a further 100 thousand tpy, would be completed in 2015. In April this year, Norðurál signed a conditional site and harbour agreement with the local Reykjanesbær municipal authority. A provisional timetable pinpoints autumn 2007 for the launch of construction work in Helguvík. However, a long licensing process lies ahead. For example, a formal EIA has not been launched. Only when that assessment is made can the authorities decide on issuing an operating permit. Also, the power sale agreement made this June will not suffice to supply Phase 1. Presumably agreements on adequate power supply will need to be concluded before construction can begin.

Less progress appears to have been made on preparations for the Húsavík smelter than for the Helguvík project or Straumsvík extension. Only the site has been decided by the developers. Ideas for electricity supply are still very vague and in-depth research will be needed before it is established whether local geothermal steam resources can provide enough. The power supply itself as well as the cost of providing it are thus all open to question and will be for some while. The entire licensing process also remains, i.e. an EIA and official operating permit.

Box IV-1

Major uncertainties still loom over further aluminium investment plans