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CFTC Chairman Orders Review of Midwest Premium in Aluminum Pricing

The scrutiny could reshape can costs, supply contracts and hedging for brewers and other beverage makers

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Beer Business Daily reported on Monday, November 16, that Commodity Futures Trading Commission Chairman Michael Selig has directed a review of aluminum pricing mechanisms, including the Midwest Premium, and asked for options for possible reform.

The move addresses an issue that brewers and other large users of aluminum have raised for years. The Midwest Premium is a charge commonly added to benchmark aluminum prices to reflect the cost of delivering metal in North America. In practice, it has become an important part of the price paid for aluminum used in many physical supply contracts, including metal that ends up in beverage cans.

For beer companies, the issue reaches far beyond commodity-market structure. Aluminum is a major packaging cost, especially for brewers that rely heavily on cans. A change in how the premium is calculated or used could eventually affect can costs, purchasing contracts and hedging strategies across the beverage industry, including beer, canned cocktails and other drinks that depend on aluminum packaging.

According to Beer Business Daily, Selig discussed the matter at the Beer Institute's annual meeting. The publication described the development as a significant shift in a debate that has lasted for decades with little progress for brewers and other industrial buyers. Beer Business Daily also reported that Mary Jane Saunders, the Beer Institute's longtime general counsel, called the development "a big deal for us" after Selig's remarks.

The Beer Institute has long argued that the premium increases costs for brewers in ways that are not always tied to the basic economics of making or consuming aluminum. Critics of the pricing system have said the premium can be influenced by factors such as warehousing, logistics, financing conditions and market structure, rather than only by current supply and demand for the metal itself. Those complaints have mattered to brewers because packaging costs can move quickly when aluminum prices rise, and large producers often buy cans and hedge exposure months in advance.

The CFTC's role is important because the agency oversees U.S. derivatives markets, where aluminum risk is often managed through futures and related contracts. Any review led by the commission could draw attention to how reference prices are formed, how market participants use them in contracts and whether parts of the pricing system create distortions for companies that use aluminum in the real economy. Beer Business Daily's report did not include a timetable for the review or detail what form any reform

proposals might take.

That uncertainty matters for beverage companies because even a narrow technical change could have broad effects. Brewers and other drink producers do not just buy cans at spot prices. Many work through long-term supply agreements, can manufacturers and hedging programs that are tied in some way to recognized aluminum benchmarks. If the Midwest Premium changes, the effect may not be immediate or uniform, but it could influence how suppliers price cans and how beverage companies manage their exposure to swings in metal costs.

The issue has drawn attention in Washington before, especially during periods when trade restrictions, supply disruptions or tight logistics pushed U.S. aluminum costs above global benchmarks. For manufacturers, those increases can be hard to absorb, particularly in businesses with high volume and tight margins. In beer, where packaging is a large part of unit cost, even modest changes in aluminum pricing can matter when spread across millions of cans.

Selig’s remarks suggest the issue now has a more direct hearing at the top of the CFTC than brewers have seen in the past. Whether that leads to a formal rulemaking, a market study or recommendations for changes in pricing practices remains unclear. For beer companies, can makers and other beverage producers, the review opens the possibility that a long-disputed cost built into the aluminum market could receive a closer regulatory examination.