

**Testimony of Roy Allen Before the Bureau of Industry and Security
of the U.S. Department of Commerce Regarding Copper-Based
Scrap Short Supply
May 19, 2004**

Good morning. I am Roy Allen, President of Hussey Copper Limited. Hussey is headquartered in Pittsburgh and has production locations in Leetsdale, Pennsylvania and Eminence, Kentucky. Together, these facilities employ approximately 800 people. Hussey is one of the oldest members of the U.S. brass mill industry, having been founded in 1848.

Hussey produces copper and copper alloy flat rolled products and copper bus bar. These products are applied by our customers in five distinct market areas: electrical and electronics applications; construction; industrial equipment; transportation equipment; and consumer and general products. We are the largest supplier of copper bus bar in North America and our customers include well known manufacturers such as General Electric, Siemens Electrical, Eaton, and Square D.

Copper and copper alloy scrap are crucial input materials for Hussey, accounting for about 80 percent of our raw material needs. Over the past several years, we have seen scrap supplies within the United States become increasingly tight, resulting in shortages of our basic input materials. We have also seen major increases in copper-based scrap prices.

While these rising prices certainly reflect general increases in world copper prices that have taken place, as reflected by the commodity exchanges such as Comex and the London Metals Exchange, they also reflect the specific supply and demand conditions of the U.S. scrap market. As more and more copper-based scrap has been exported out of the United States, demand for the remaining scrap has exceeded supply, and the discount at which scrap has traditionally sold in relation to the Comex index price has evaporated.

Let me give you some context as to where our industry has been in recent years and the impact that the ongoing copper scrap shortage has had on us. From 2001 through 2003, our industry

suffered a large decline in sales and production, reflecting the substantial downturn in the U.S. economy, particularly manufacturing, during this period. Hussey faced declines in sales volumes of approximately 35 percent during this period. This was the most severe downturn suffered by our company in the past 25 years.

Toward the end of 2003 and into 2004, we felt like we were beginning to see some light at the end of this long tunnel. Unfortunately, it was during this period that the U.S. market for copper-based scrap became completely out of balance. As you have seen in our petition, exports of copper-based scrap from the United States expanded by nearly 200,000 metric tons in 2003, an increase of one-third in relation to 2002. All of this increased volume went to China. Reflecting this growth, exports took 40 percent of the total U.S. supply of copper-based scrap, up from 31 percent in 2002.

As you can imagine, when a buyer increases purchases by a third and takes 40 percent of the supply of anything, the effect will be to push up prices for that commodity. Exports of copper-based

scrap have actually been increasing dramatically since 1999, but because we were in a recession and the brass mill industry's output was down so severely, the impact of the increase in exports was not as severe as it would have been under a healthy economy. However, as the economy and U.S. manufacturing began to turn around in the second half of 2003, growing exports of copper-based scrap had a huge impact on the U.S. market. Thus, just as we began to turn a corner and pull out of years of recession, we were faced with shortages of copper scrap supply and dramatic increases in the prices we pay for that scrap, our predominant raw material.

Simply put, we do not have nearly enough raw materials to serve our customers under currently improving business conditions. Because of these problems and our inability to pass through all of our increased raw materials costs, Hussey has suffered a loss of approximately 25 to 30 percent of our bottom-line profit. After three years of poor profitability, we are in a very weak condition to weather the current storm in relation to the short supply of copper-based scrap.

After U.S.-generated scrap is purchased at above-market prices and exported from the United States, most of it is shipped to China, where it is processed and turned into raw materials for brass mill production. Those Chinese brass mill products and downstream products produced from them are then exported to the United States. Somehow, despite paying top dollar for our scrap and having to pay for the freight to and from China, these products come back to the United States and are sold at prices that undercut ours and those of our customers.

I can tell you from my knowledge of Hussey's cost structure and that of my customers that what the Chinese are doing does not add up. It is not based on comparative cost advantages in relation to labor costs, because labor accounts for a very small portion of the overall cost of our finished product, and that is largely true for our customers as well.

It is clear to me that the Chinese have fostered a system that is set up to grab as much U.S.-generated copper scrap as possible, and in one way or another, the increased costs are written off or

subsidized by the Chinese government. Presumably, this practice makes sense from their perspective, because along with the relative price advantage of scrap over cathode, scrap refining allows more value-added in China. Our visits to China have shown us that it is rapidly developing the capabilities to be the world's largest copper and brass industry, and the growth of that industry is being based on U.S. scrap.

This is not conjecture, as officials from China's Minmetals made public pronouncements to that effect at a global conference in Shanghai last November. These officials stated that China does not have nearly enough copper ore reserves to meet its needs and that copper scrap was preferable to cathode as a source of copper units, due to its lower cost. Further, 75 percent of China's copper scrap needs come from the United States, despite the fact that Europe as a whole has a greater production volume of copper and copper-alloy products than the United States. Something is not right with this picture.

I'm sure the scrap dealers that sell to the Chinese will tell you that this problem is already correcting itself because the Chinese government is attempting to put the brakes on their economy, and the result will be excess supplies of copper-based scrap in China. However, the Chinese brass mill industry is not going away anytime soon, and over the long term, their overall demand for copper units is going nowhere but up.

Given that copper cathode prices are forecasted to remain high at least into 2005, there will remain a huge incentive for the Chinese to source scrap from the U.S. market. Indeed, even if copper cathode prices come down significantly, scrap will remain relatively attractive to Chinese buyers because it sells at a discount in relation to cathode. If the Chinese do actually pull back from the U.S. market, the request of the U.S. copper and brass industry for a quota on U.S. exports of copper-based scrap will have essentially no impact on the Chinese industry. On the other hand, if our government does not impose such controls and the Chinese continue

**to take an increasing share of the U.S. supply of copper-based scrap,
my company, and our industry, will not make it over the long term.**