

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

My name is Tom Baker, and I am the Vice President of Marketing, Metals Group, Olin Corporation, which is headquartered in East Alton, Illinois. Olin Brass is one of the largest producers in the world of copper and copper alloy sheet and strip. We have been in business since 1914 and employ approximately 4,000 people. We also produce high-performance copper alloys, copper-alloy stampings, tubing and, through our subsidiary, Chase Brass, produce free-machining brass rod.

Olin Brass produces more than 60 different copper alloys that are used for the manufacture of sheet and strip, thin-gauge treated copper, tubing, and a variety of stamped products. Olin Brass' products have end-uses ranging from electronic devices for telecommunications, data, and automotive, to decorative hardware, coinage, and ammunition. Olin has been a long-time, major supplier to the U.S. Mint and to government owned arsenals.

Copper scrap, copper-alloy scrap, and copper cathode are the primary raw material inputs utilized at Olin's production facilities. Of these inputs, Olin uses a significant amount of copper cathode because of the requirements of the end-use markets in which we participate.

Increasingly so since early 2003, Olin has experienced a significant and steady increase in the price of our raw material input costs for all copper-based feedstock, whether in the form of scrap or cathode. This raw material price increase has had an impact on Olin's production operations across the board. Surging exports of copper scrap and copper-alloy scrap, triggered by increased Chinese demand for these products, have resulted in decreased domestic availability and have been the driving force behind the price increases for this important primary input.

Although Olin relies heavily on copper cathode, the lack of availability of the high grades of copper scrap, such as Number 1 and Number 2 copper scrap, has increased the input cost for our operations. For example, decreased availability of scrap materials forced the closure of a secondary U.S. refinery that supplied Olin with copper ingots

produced from Number 2 copper scrap. As a result of this secondary refinery's closure, Olin had to switch to use of copper cathode, at a significantly higher cost, as a substitute for the less expensive copper-based scrap raw material input.

In addition to increasing costs for production operations that typically would utilize scrap, costs have increased for those production processes that depend wholly on copper cathode inputs. Premiums of copper cathode have doubled in the last four months and have tripled over the last 18 months. Importantly, these input cost increases cannot be readily passed on to consumers. For example, we have fixed contracts with the U.S. Mint and the government-owned arsenal.

The significant increase in these premiums for raw material inputs, and the difficulty of passing through these added costs, has significantly impacted our profitability.

I thank you for the opportunity to speak before you today, and welcome any questions that you may have.