

**TESTIMONY OF JEFFERY BURGHARDT  
BEFORE THE BUREAU OF INDUSTRY AND SECURITY  
UNITED STATES DEPARTMENT OF COMMERCE  
(MAY 19, 2004)**

Good morning. I'm Jeff Burghardt of Outokumpu American Brass ("OAB"). OAB produces a wide variety of semi-finished brass mill products, including copper and copper-alloy sheet, strip, and tube. I have 27 years of experience in the brass mill industry and have been in metal procurement for approximately the last 20 years. I am responsible for all metal procurement at OAB's facility in Buffalo. In addition, I am responsible for coordinating metal procurement for all of Outokumpu's copper operations in the United States.

In the brass mill industry, a steady availability of copper-based scrap at reasonable prices is critical, so much so that some production processes are designed to need 100 percent scrap. Those operations that alternatively can use copper cathode incur significantly greater production costs.

It is important to understand the basic pricing structure for copper units, as copper cathode and copper-based scrap generally are often called.

On the one hand, copper cathode – which is 99.99 percent pure and the end-product of the mining, smelting, and refining process – is traded on three major markets: the New York Mercantile Exchange's COMEX Division or COMEX; the London Metal Exchange or LME; and the Shanghai Commodity Exchange. The price for copper cathode as a fungible commodity is essentially a global price. COMEX is the benchmark for establishing the price of copper in the United States, while the LME serves this function for Europe and much of the rest of the world. The COMEX and LME prices are close to one another and track each other. The price for copper cathode in China is set by the Shanghai Commodity Exchange. How that exchange is

structured and operates are not clear to me. Its prices for copper cathode typically are significantly higher than the COMEX and LME prices.

In the United States, prices for copper cathode are negotiated to reflect the COMEX price plus a premium that includes freight and insurance for delivery to the buyer's location, overhead, and a market adjustment. The market adjustment is determined by the availability of supply.

On the other hand, there is copper-based scrap of various grades of purity, such as No. 1 copper scrap, which is the highest grade of copper scrap and is the most common form of scrap purchased for OAB's operations. There are other, lower grades of copper-based scrap, some of which are processed by the U.S. scrap industry, upgraded to No. 1, and then purchased by the brass mill industry. There are some lesser grades of scrap that are not processed any longer in the United States and that are exported.

As far as metal pricing is concerned, while copper-based scrap is not itself traded on the COMEX, LME, or the Shanghai Commodity Exchange, the prices of copper-based scrap are determined with reference to the price of copper cathode. Thus, for example, copper-based scrap in the United States is priced at a negotiated discount or premium relative to the COMEX price for copper cathode. The pricing of copper-based scrap varies by grade, but is almost always priced below the price of copper cathode.

The amount by which the price of copper-based scrap is discounted from the COMEX price is extremely important. As would be expected, the discount decreases and the price of the copper-based scrap increases – both absolutely and vis-à-vis the COMEX price – as the supply of scrap dwindles. When it is recalled that a brass mill's production is measured in many millions of pounds a year, it is evident that a price differential of a penny per pound or less in the

price paid for copper-based scrap has a considerable impact on a brass mill's total cost of manufacture.

Over the past several years and carrying forward to the present, the U.S. brass mill industry has seen a dramatic drop in the volume of available copper-based scrap, especially No. 1 copper scrap. The adverse repercussions of this trend have been felt throughout the U.S. brass mill industry. All indications are that the higher prices and reduced availability of copper-based scrap are due principally to the burgeoning exports of these materials to China. The Census Bureau's official export data and my own experience confirm this conclusion. In personally visiting and speaking with many of our suppliers, I have learned directly that the copper-based scrap that previously was sold to U.S. brass mills such as OAB has been going to China. While China had already been purchasing considerable copper-based scrap prior to 2003, I believe that most of that scrap was of lower grades. In roughly the last year and one-half, China has also been targeting No. 1 copper scrap and other grades that have been and can be processed in the United States into No. 1 copper scrap. Insulated copper wire is a prime example of such material. These higher grades are the type of material on which U.S. brass mills historically have relied to source many of their copper units in lieu of copper cathode.

The increased demand for U.S. copper-based scrap, particularly from China, has seriously disrupted our ability to secure a steady supply of this critical raw material at reasonable prices. We are not only unable to purchase as much volume of copper-based scrap as we have historically, but what amount we are able to buy is at prices with less of a discount from the COMEX price for copper cathode. Moreover, we are being forced to rely more on higher-priced copper cathode than we would otherwise. In this last regard, the premiums in certain parts of the

United States for copper cathode have nearly tripled over the last year and are now up to as much as 9 cents and 9.5 cents per pound.

In conclusion, the increasing exports from the United States of copper-based scrap, especially to China, have been having a debilitating effect on the U.S. brass mill industry. The shortage of this scrap has resulted in a striking jump in OAB's costs and has caused OAB to rely on copper cathode more than would be the case were copper-based scrap not in short supply and at a time when the premiums for copper cathode are near or at historic highs. This situation is not sustainable for OAB and the U.S. brass mill industry.