

**Testimony of George Dykhuizen 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 George Dykhuizen, and I am the President of Extruded Metals, Inc., which is located in Belding, Michigan. Extruded Metals produces several alloys of high quality brass rod and bar for a wide array of manufacturers. We have been processing brass for our industrial customers since 1938. Our large facility, which is big enough to house 13 football fields, utilizes state-of-the-art continuous casting, indirect extrusion, drawing, straightening, and material handling equipment.

The brass rod and bar that we produce is used by a multitude of international manufacturers to create several types of brass products, including industrial fittings and valves, electrical equipment, lock components, decorative fasteners, and a variety of faucet parts. Extruded Metals has long been known as a dependable source for high-quality brass products. That reputation, however, is being threatened due to the current out-of-the-ordinary U.S. market conditions with

respect to the supply of our primary raw material input, copper-based scrap.

This point should go without saying, but it is important to note that copper-alloy scrap, as used in the production of brass rod and bar, is not a “waste” material. Rather, it is 100 percent recycled metal that is of significant value to those of us who use it as a raw material input. Extruded Metals’ current brass rod and bar production facilities are designed to utilize copper-alloy scrap inputs only. This means that copper-alloy scrap cannot be replaced with prime, or higher end material, such as copper cathode due to the physical structure of our production facilities.

Based on Extruded Metals’ sole reliance on copper-based scrap as a key material feedstock, we are particularly sensitive to any market disruptions involving the price or supply of this product. Having said that, the current market situation has given us cause for tremendous concern.

It is a well-known fact that the price of copper scrap and copper-alloy scrap has increased dramatically over a relatively short period of

time. In 2004, the cost of copper-alloy scrap has increased to 175 percent of the price in 2003. This price increase, in our opinion, was triggered by shortages, which in turn were caused by abnormal purchases of this product for export. In particular, as several of my colleagues have already noted, we have experienced situations where purchases of U.S. scrap were made by Chinese buyers in cash. These purchases were made at the point of delivery and at prices well-above the market average. Given that metal values account for over 80 percent of the cost of rod and bar, it has been difficult, if not impossible, for Extruded Metals to compete on these same terms.

Unlike other similarly situated copper and brass mills, Extruded Metals has been fortunate in that it has been able to pass at least part of these price increases on to customers. It is unclear how long, or how much, of this price increase our customers will be willing to accept. What is certain, however, is that this practice is not sustainable because it also increases the material input costs of our customers who produce downstream copper-based products from our rod and bar. Thus, overall,

the current market situation is having a negative impact on the overall competitiveness of American-made products.

Very interestingly, we have observed that the high price of U.S. copper scrap and copper-alloy scrap has not had a similar effect on the price of imported copper-based products that were formerly made by our customers. For some reason, imported products from China that have been manufactured from the same expensively priced U.S. copper-based scrap are underselling similar U.S. products. Some have attributed this phenomenon to subsidies provided by the Chinese government for copper-based scrap.

We believe that there is some credibility to this theory, at least from our perspective as a rod and bar producer, because other factors, such as the cost of labor, cannot explain the inconsistency. In rod and bar production, direct labor costs are a relatively low proportion of the end market price – for our products, we are talking less than 5 percent for labor and over 80 percent for raw material cost. Therefore, cheap foreign labor, as in the case of China, or even free labor, would have very little effect on the comparative values of imported versus domestic-

made products. For copper-rod and bar based products, the driving force is the cost of the raw material metal input. Only by forcing domestic, U.S. prices to the high levels that we are currently experiencing, can foreign products leverage an advantage. This is what we believe is happening in the present market.

I thank you for the opportunity to present these comments and look forward to answering any questions that I can.