



P.O. Box 437
Deerfield, IL 60015-0437 USA

847-948-0800
Fax 847-948-0811
wwshropshire@chemet.com

W. W. Shropshire, Jr.
President

May 17, 2004

Copper and Short Supply Petition
Regulatory Policy Division
Bureau of Industry and Security
Department of Commerce
PO Box 273
Washington DC 20044

Thank you for the opportunity to comment on the issue of Copper Export Controls and Monitoring on Recyclable Metallic Materials Containing Copper.

American Chemet Corporation manufactures copper and copper oxide metal powders at facilities in East Helena, MT and markets those products to customers around the world. Currently, we have 130 employees working for the company with 119 in Montana and 11 at our office in Illinois. Our sales for the fiscal year, which will end June 30, 2004, are estimated to be 34,000 tons and revenue is projected to be above \$ 80,000,000. About 57% of our copper sales are to customers in the US with the balance to export customers primarily in Asia and Europe.

We receive notice of the petition filed by the Copper and Brass Fabricators Council or the Non-ferrous Founders' Society and wish to support it. We are not members of either association nor do we participate in the markets their member companies support. We wish to support favorable action as to their petition because we have experienced the same problems in filling our needs for copper scrap, the preferred raw material for our industry and their's.

Our company has been very fortunate to have had the opportunity to experience substantial growth since our fiscal year 2000. Using that year as the base year, our sales have increased from 20,500 tons to the forecasted 34,000 tons in 2004. We could not have experienced that growth without reliable availability of raw materials from a network of long term suppliers with whom we have developed mutually rewarding relationships. We purchase both # 1 and # 2 scrap products prepared for us by processors of scrap from both dealer and industrial sources.

We have been producing copper and copper oxide powders since 1962 and have used a variety of copper scrap items before standardizing on the above materials. There are approximately 20 specialized companies in the US who prepare this type of

www.chemet.com

CORPORATE AND SALES OFFICE: 740 WAUKEGAN RD., SUITE 202, DEERFIELD, IL 60015 U.S.A., 847-948-0800. FAX 847-948-0811
MANUFACTURING: SMELTER ROAD, P.O. BOX 1160, EAST HELENA, MT 59635 U.S.A., 406-227-5302. FAX 406-227-8522

scrap for consumption by US industry. The price of these types of scrap vary with the underlying price of copper which is measured by the price of refined copper being traded on the New York Mercantile (COMEX) Exchange. As a rule of thumb, # 2 materials trade at a higher discount to the refined price than do # 1 materials because # 2 contains more impurities and consequently less copper. The discounts usually widen in absolute terms as the price of copper increases but supply and demand for individual scrap types also influence the discount. During the Calendar period from 2001 to the present, discounts to the COMEX price for # 1 scrap of the type we buy have declined from a discount of 3- 4 cents per pound in 2001 to a premium of 1 – 2 cents today. During the same period, discounts for the # 2 scrap products we buy have declined from 11 – 13 cents per pound to discounts of 1 to 4 cents per pound.. During this same time, the COMEX price increased from the 70 cent per pound range in 2001 to a high of \$ 1.40 per pound in March 2004. Usually, a run up in the COMEX price would result in discounts widening out, not narrowing in.

What is different in today's world is a major change in demand. There has always been a substantial export market for US scrap copper in Asia. Japan and Korea in their turn were and still are major markets for our scrap. More recently China has become an important market for copper scrap as its industrial needs for the metal expanded along with demand from its internal and external markets for products containing copper. Historically, US consumers could obtain the scrap items required by being competitive in price with those offered by export buyers while providing a steady local market outlet to the domestic scrap processor. That has changed in the recent past because Chinese buying organizations began paying prices which were unprecedented in terms of their relation to the price of refined copper.

Our domestic processors and consumers would not match those unrealistic prices until it became obvious that it was match them or do without. That recognition came to our company in 2002 but by that time Chinese buying had reached a frenzy and scrap items in the US became very hard to purchase. That forced companies like ours to pay more for what we needed to buy and to learn how to purchase and process refined copper products as produced by our primary refineries, i.e full plate cathodes. That added cost both at the time of purchase and also in terms of processing costs. Cathode, which are sold on a delivered basis depending on location, currently are being quoted at a premium of 9.0 – 9.5 cents to the COMEX price.

We believe the prices which have been offered by Chinese buyers to scrap sources in the United States are not economically justified and could not have been sustained unless there was subsidization by the government of China as a matter of policy. Our experience was we had to pay higher and higher prices for our scrap in order to obtain what was available through our processors. Additionally, we found that the availability of those scrap items had been so diminished by Chinese buying that we were forced to purchase full plate cathodes to close the gap between our needs and what was available from the scrap market.

This is demonstrated in TABLE 1 which indicates how Chinese buying impacted the price we had to pay for the raw materials purchased in our fiscal years 2001, 2002, 2003, and 2004. All of the statistics are based on American Chemet's internal records

www.chemet.com

for the years in question. The number for 2004 is an estimate based on nine months actual data.

We have been able to obtain the raw material needed to support our growth thanks to our suppliers who have continued to service our account in the face of increasing competition by Chinese buyers. Additional thanks go to one of our domestic refiners who was willing to support our need once we learned how to process and consume full plate cathodes. That availability, however, came at a considerable cost as can be seen in TABLE 1 by the near disappearance of our realized discount during a period of time where the copper price, as previously indicated, was increasing. Since our projected use of scrap in 2004 will be only 1.4% of the amount of scrap consumed by US industry in 2000, it is hard to suggest that our growing need for scrap significantly influenced the disappearance of the discount. 1.)

Due to the competitive and international nature of our markets, we have been unable, in a material way, to pass on the increase in neither the cost caused by the reduction in discounts for our raw materials nor the cost we have had to incur to process cathodes. As a result, we have lost margin which reduces our ability to generate the capital we will need to continue this growth. It also sets us up for even more significant damages if Chinese chemical manufacturers learn to produce the copper based products competitive to ours. The Chinese chemical industry is capable and growing and the necessary technology is available to those schooled in the art. If world scrap resources continue to flow to China because of subsidization and are passed on to potential Chinese manufacturers with similar subsidies then we and our US competitors will be unable to compete in the world markets for those products with loss of market share and eventually, jobs, as the only possible outcome.

Thank you for the opportunity to comment.

Sincerely,

W. W. Shropshire, Jr.
President

Cc: David Hartquist, Collier Shannon Scott
Brian Pomper, Finance Committee, US Senate

1.) [Petition for the Imposition of Monitoring and Controls With Respect to Exports from the United States of Copper Scrap and Copper-Alloy Scrap](#). Page 14 and Exhibit 6 to the Petition

www.chemet.com

CORPORATE AND SALES OFFICE: 740 WAUKEGAN RD., SUITE 202, DEERFIELD, IL 60015 U.S.A., 847-948-0800. FAX 847-948-0811
MANUFACTURING: SMELTER ROAD, P.O. BOX 1160, EAST HELENA, MT 59635 U.S.A., 406-227-5302. FAX 406-227-8522

TABLE 1

Copper Scrap and Refined Purchases
Fiscal years 2001 - 2004

Year	Purchases (tons)			Discount to COMEX Cents/lb
	Scrap	Cathode	Total	
2001	16,780		16,780	9.0
2002	19,500		19,500	4.5
2003	19,600	805	20,405	3.7
2004 (est.)	24,000	3,600	27,600	1.0

www.chemet.com

CORPORATE AND SALES OFFICE: 740 WAUKEGAN RD., SUITE 202, DEERFIELD, IL 60015 U.S.A., 847-948-0800. FAX 847-948-0811
MANUFACTURING: SMELTER ROAD, P.O. BOX 1160, EAST HELENA, MT 59635 U.S.A., 406-227-5302. FAX 406-227-8522