

**Testimony of Michael Kerwin 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 Michael Kerwin of Georgetown Economic Services. The petition and supplemental comments that have been submitted to you in this case provide compelling evidence in support of the statutory criteria laid out by Congress. Specifically, U.S. exports of copper-based scrap have increased significantly, both in relation to volume and in relation to domestic supply and demand within a specific period of time. Further, these increases have resulted in domestic shortages and significant price increases for these recyclable materials. Finally, the evidence demonstrates that the growing volumes of exports of copper-based scrap have been more important than any other cause of the shortages in supply and price increases and that these conditions have had a significant adverse effect on the U.S. brass mill industry.

As you will hear from our industry witnesses this morning, copper-based scrap is a critical raw material to the U.S. brass mill

industry, accounting for a significant majority of the industry's overall metal input needs. It is no small matter, then, that a growing portion of the available stock of these raw materials is going overseas.

Between 1999 and 2003, total exports of copper-based scrap from the United States increased by more than 430,000 metric tons, or 138 percent. In 2003 alone, these exports grew by nearly 200,000 tons, or 33 percent.

Because U.S. consumption of copper-based scrap was declining during this period, exports increased their share of U.S. scrap supply. While exports took 16 percent of the total copper-based scrap supply in 1999, that figure jumped to 31 percent in 2002 and 40 percent in 2003. In comparison to U.S. consumption of the product, exports of copper-based scrap were equivalent to 19 percent of consumption in 1999 and grew to 65 percent in 2003.

Nor have exports shown any sign of abating in 2004. In each of the first three months of this year, exports of copper based scrap reached new all-time peaks for those months in relation to previous

years. In fact, the most recently released official statistics show that in March of this year, the last month before the filing of our petition, export volumes for copper-based scrap reached 79 thousand metric tons, their highest level in recent history. This volume was 27 percent higher than that shown in March of 2003 and 9 percent higher than in the previous all-time record month.

Thus, the evidence of the official statistics indicates that there have been massive and extremely significant increases in exports of copper-based scrap in recent years, both in volume terms and in relation to U.S. consumption. As laid out in our submissions, the result of this growth in exports has been shortages of copper-based scrap in the U.S. market and increased prices for the commodity, as measured by reduced discounts for the product in relation to copper prices on the metals exchanges. Because domestic brass mills have been unable to pass through all of their cost increases, these developments have had a severe impact on industry profitability.

Our opposition in this case, the Institute of Scrap Recycling Industries, or ISRI, does not dispute there has been a massive

increase in overall exports of copper-based scrap from the United States in recent years. Rather, ISRI claims that the petitioners have glossed over the distinctions among various types of copper-based scrap and that all of the growth in exports has occurred in relation to forms of scrap that cannot be used by the brass mill industry. These arguments fail on a number of accounts.

First, ISRI implies that the classifications under the Harmonized Tariff Schedule can be interpreted as close representations of grades of copper-based scrap. This is not true. In fact, the HTS distinguishes exports on the basis of the alloy content of the scrap, distinguishing between scrap of pure copper, brass, leaded brass, or other copper alloys. The HTS makes no mention of the grade or quality of these materials.

For this reason, ISRI's implication that the main concern of the brass mill industry is in relation to product falling under the single heading of refined copper scrap, while exports classified as "other" copper alloy scrap are essentially solely of interest to secondary smelters, is completely off the mark. The fact of the

matter is that a majority of the scrap consumed by the brass mill industry is copper alloy scrap, not scrap of pure copper. The industry actually consumes scrap that falls under each of the four HTS classifications under which the product is exported. Indeed, even ISRI's claim that brass mills do not consume any Number 2 copper scrap is not accurate.

Even if ISRI's claims as to the brass mill industry's consumption being limited to scrap of refined copper were true, ISRI's discussion in this area is misleading. While the ISRI comments note that exports of pure copper scrap declined by 19 percent in 2002, such analysis overlooks what happened to exports of this product in 2003. In that year, exports under this subheading increased by 109,000 metric tons or 42 percent, the highest of any of the four scrap classifications, both in terms of absolute volume and percentage increase. Thus, even if you accept ISRI's claims as to the true meaning of the HTS classifications and the consumption patterns of the brass mill industry, the data do not support their assertions.

Contrary to ISRI's claims that the petition "attempts to gloss over the important distinction between high-grade copper scrap typically consumed domestically and the low grade copper scrap for which there is inadequate demand," our petition provided full data on each of the four classifications of copper-based scrap. The simple fact is the HTS descriptions do not distinguish among qualities of scrap, and the petitioners' analysis could not possibly "get behind" the official statistics in order to ascertain the quality of the scrap being exported. Further, the U.S. brass mill industry consumes scrap that falls within each of the four HTS classifications of copper-based scrap.

It is true that consumption of U.S. copper-based scrap by smelters and refiners has been in decline in recent years, and the petition provided separate breakouts of the US Geological Survey data showing scrap consumption among smelters, brass and wire rod mills, and foundries and miscellaneous manufacturers. But these data show that consumption of copper-based scrap by brass mills has long exceeded that of smelters and refiners, accounting for

roughly two-thirds of all consumption of copper-based scrap in the United States.

Further, while ISRI would have you believe that increasing exports of copper-based scrap are attributable to declines in consumption at secondary smelters, ISRI's own data show that the last such closure occurred in 2001. Thus, all of the effects of smelter closures on U.S. consumption of copper-based scrap would have occurred in the years leading up to 2001, and these closures are not of relevance in analyzing the years following 2001. The fact of the matter is that the largest increase in the volume of exports of copper-based scrap occurred in 2003, two years after the last smelter closure. Thus, even if we accept ISRI's claims in relation to the significance of smelter closures in the U.S. market, there is no way that this explains the growth in exports in 2003, the year showing the largest increase in scrap exports and a huge decline in consumption by brass mills, as more and more of this key input material was taken from domestic consumers and sent overseas.

Finally, ISRI has argued that if export controls are put into place, this is likely to have the effect of raising prices for copper-based scrap in the United States. We believe that this is highly unlikely, given that there are other sources of copper scrap in the world, and that copper cathode can often be used in place of copper scrap. Indeed, if ISRI's claims truly are in earnest, why in the world are they opposing the current petition, given that an increase in U.S. scrap prices would be very much in the interest of scrap dealers? The plain fact is that ISRI opposes the petition because it fears that export controls will result in price reductions for copper-based scrap in the U.S. market, precisely the result that we are trying to achieve through this action.