Testimony of Jim Rourke Before the Bureau of Industry and Security of the U.S. Department of Commerce Regarding Copper-Based Scrap Short Supply
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My name is Jim Rourke, and I am the Vice President and General Manager of Mueller Industries, Inc., Industrial Products Division. I would first like to thank the Department for the opportunity to speak before this panel on a topic that is of most urgent concern to my company. That, of course, is the alarming rate at which copper scrap and copper-alloy scrap have been leaving the United States and the impact this has had on the cost and availability of the type of scrap we consume.

Mueller Industries is a leading manufacturer of copper tube and fittings, brass and copper-alloy rod, bar, and shapes, and copper impact extrusions, among other products. Our manufacturing operations are located throughout the United States and in Canada, Mexico, and Great Britain. As I will describe in more detail below, the success of Mueller's facilities depends on a steady, reasonably-priced supply of copper-based scrap materials.

Mueller's brass rod facility, which is located in Port Huron, Michigan, has been in operation since 1917. The Port Huron mill produces a broad range of brass rounds, squares, hexagons, and special shapes in free machining, tread rolling, and forging alloys. The brass rod-based products manufactured at Mueller's Port Huron mill have a variety of end-uses that include plumbing-products, hardware, valves and fittings, and industrial machinery and equipment, to name a few.

Mueller's brass mill operations in Port Huron are designed to use copper-based scrap as the primary feedstock. In fact, all the copper units used to produce brass at Mueller begin as scrap. We use scrap in many forms and grades to produce our products. The type of material we use is determined by what is available in the marketplace.

Mueller also has two domestic copper tube mills that produce copper water tube in straight lengths and coils, copper refrigeration and air conditioning tube in dehydrated coils and nitrogen charged straight lengths, and industrial tube and line sets. Mueller's tube mill in Wynne, Arkansas, is designed to run utilizing copper scrap as its primary

feedstock. The Fulton, Mississippi tube mill, however, is designed to run on either copper scrap or copper cathode.

Over the past several years, Mueller observed that a sizeable and growing amount of copper scrap was being exported from the United States to China. While the increase in exports was certainly an anomaly based on historic trading patterns for similar economic periods, it was common industry knowledge that China's demand for copper scrap was growing rapidly. As U.S. stocks of copper-based scrap began to dwindle, Mueller noticed that this shortage was causing serious upward pressure on the value and availability of this scrap. As exports increased, our normal sources of supply could not support us, discounts declined, and we sought other, higher-cost sources of supply. This has an increasingly negative impact on Mueller and its customers from year-to-year. Indeed, the strong demand from China for these strategic metals has structurally changed the marketplace in terms of price and availability.

In particular, since 2003, Mueller's brass rod mill has experienced an increase in the cost of its copper scrap feedstock, and the discounts

for this high-grade scrap have decreased in relation to the Comex price. It is our understanding that the Chinese government applies a Value Added Tax, or V.A.T., of 17 percent on imports into China of copper-based scrap, ore, and concentrate, but then refunds 30 percent of that tax. This arrangement has enabled Chinese scrap purchasers to bid and pay higher prices for U.S. copper-based scrap. In some instances, Chinese buyers have been able to pay U.S. scrap sellers a premium on unprocessed copper-based scrap that oftentimes has been equal to what domestic consumers would pay after processing. As a result, previous forms of higher-quality select #2 copper scrap products, such as wire chops and pucks that were previously used in production by Mueller, are no longer available. Consequently, in 2002 and 2003 some domestic processors have ceased to operate, and the feed profile for our mill has changed in two significant ways – (1) discounts for copper-based scrap declined and (2) the availability of quality of copper-based scrap available at reasonable discounts declined.

In addition to price increases for raw material feedstock, Mueller is experiencing more melt loss and increased material handling because of

the quality and increased bulk of the types of scrap available to us. For example, wire chops and pucks are preferred to other forms such as shreds because it is available in denser packaging that takes up less space in terms of inventory, handling, and furnace charging and produces better yields. Today – when we can find a reliable source of feedstock – it is of a lower quality, over-priced for its grade, and is available in looser packages that increases our handling costs.

Mueller attributes these rising costs and shortages to a combination of increased exports and Chinese buying practices, which typically include either one or a combination of both: (1) paying on delivery to U.S. shipping points, in effect paying cash; and (2) paying at higher than market-value prices. This has been especially true with respect to the forms designated as #2 or low grade, used by processors to produce the more desirable grades and more compact packages of copper-based select #2 scrap or #1 bare bright.

Mueller's rod mill has been hurt significantly as well by import penetration of downstream component parts and products that were previously produced by brass rod consumers in the United States. Most

of the components and assemblies lost to imports are of a high-volume nature and were previously produced by numerous "job shop" machining companies located across the country that consume brass rod. Our customers expect to be under continuous pressure due to the difference in labor costs. They should not, however, be disadvantaged by China's apparent subsidies for copper-based scrap that is imported into China and returned to the U.S. as finished product. These policies put our U.S. downstream customers and us at a disadvantage relative to the availability and cost of the raw material input – namely, copper-based scrap.

For example, our cost of goods sold, and that of our customers, is high in metal or material costs. For Mueller, over 80 percent of the cost of producing brass rod is metal. Our customers' material costs range from 50 to 75 percent of their products' selling prices. With these levels of material cost content, it is difficult to compete when the Chinese manipulate the marketplace through the use of tariffs and V.A.T. rebates. The volume of brass rod sold in the U.S. in 2003 was 20 percent below industry norms at a time when traditional markets that

consume products made from brass rod were strong. In our industry, the availability of competitively priced, quality scrap is vital to our success.

The viability of our industry is dependent upon our customers' ability to compete on a worldwide basis. When the Chinese employ tariffs and rebates that allow them to secure a disproportionate share of the scrap available in the U.S. and turn that material into finished product for sale in our market with a material cost reflecting the V.A.T. rebate which lowers the material cost, it puts our customers and the domestic rod producers at an unfair disadvantage.

The advantages in raw material costs the Chinese producers have been able to provide themselves has allowed them to sell products into the U.S. market at prices lower than our customers' material costs. This advantage all starts with scrap. If this continues, the impact on employment at brass mills and screw machine shops will continue to worsen.

The increasing price of copper-based scrap has had a similar, negative impact on Mueller's tube mills. The shortage of scrap during the last three years has caused Mueller to utilize a higher percentage of

cathode in its tube operations at its Fulton, Mississippi mill. Since cathode is typically more expensive than scrap, this shift has resulted in an increase in Mueller's raw material costs.

Thank you for the opportunity to address this issue.