

04-002341

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**TO: The Honorable Donald L. Evans
Secretary of Commerce**

**C/O: Ms. Brenda Becker
Assistant Secretary for Legislative
and Intergovernmental Affairs**

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FROM: Kevin Carpenter

DATE: 6/14/04

PAGES (including cover): 3

**RE: Petition for the Imposition of Monitoring And Controls With
Respect to Exports from the United States of Copper Scrap and Copper-
Alloy Scrap**

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PENNSYLVANIA

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United States Senate

WASHINGTON, DC 20510-3802
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June 14, 2004

The Honorable Donald L. Evans
Secretary of Commerce
United States Department of Commerce
1401 Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Secretary Evans:

I am writing to encourage your approval of the Petition for the Imposition of Monitoring and Controls With Respect to Exports from the United States of Copper Scrap and Copper-Alloy Scrap ("Petition") filed on April 7, 2004 by the Copper and Brass Fabricators Council, Inc. ("CBFC") and the Non-Ferrous Founders' Society ("NFFS").

Pennsylvania has a number of manufacturing companies that are dependent on a secure supply of copper and copper-alloy scrap at reasonable prices. These include CBFC member companies such as Brush Wellman, Cerro Metal Products, Cambridge-Lee Industries, Heyco Metals, Hussey Copper, The International Metals and Chemicals Group, and Precision Tube Company, a division of Mueller Industries. These Pennsylvania manufacturers produce semi-fabricated copper products such as sheet, strip and plate, rods, bars, and extrusion profiles that are utilized by other manufacturers to produce finished products. These manufacturers have experienced first-hand the increase in scrap prices and the short supply of copper and copper-alloy scrap that have resulted from a corresponding increase in exports of these raw materials over the last five years.

As cited by the CBFC and the NFFS in their Petition, for the five-year period 1999-2003, exports of copper-based scrap increased by 437,199 metric tons (MT), or 138 percent, with almost all of this growth attributable to rising demand in China. During the same time period, U.S. copper-based scrap consumption declined by 471,636 MT as indicated by U.S. Geological Survey data. The short supply of copper scrap has caused the brass mill industry to use a higher proportion of the more expensive virgin copper (cathode). In March 2004, for example, the industry was forced by the low supply of scrap to use more than twice as much cathode (expressed as a percentage of all metal inputs) as would have been used under the industry's preferred recipe.

I understand that the increased demand for exports of copper-based scrap has had a dramatic impact on prices. Prices have increased both in absolute terms and in relation to cathode. For example, in 2001, the discount for Number 1 copper scrap was 2.95 cents per pound below the Comex cathode price. By 2003, this discount had dwindled to just 1.19 cents

per pound. Thus it is estimated that the increase in exports and reduction in the supply of scrap available to the U.S. industry acted to push up the effective price for copper-based scrap by a minimum of 1.76 cents per pound. Given that the brass mill industry consumed 842,182 metric tons of copper-based scrap in 2003, it is estimated that the reduced scrap discounts due to lower supply of copper-based scrap resulted in a direct cost to the brass mill industry of \$32 million. These costs are not fully recoverable, as substitute materials and imports place a ceiling on the price these manufacturers can charge for their products.

I am also informed that the brass mill industry has directly experienced the impact of the dramatic increase in copper raw material prices and risks of production outages and lost production created by the short supply of copper-based scrap. As indicated by the data in the Petition, these are not the normal cyclical fluctuations in copper-based scrap supply and price. Indeed, contrary to the normal cycle, escalating prices and shortages of copper scrap were manifest even before the brass mill industry began to recover from the recent downturn.

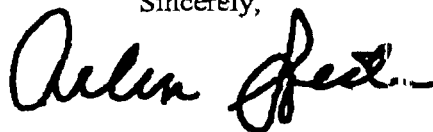
In addition, the copper-based scrap shortages and escalating prices could potentially impact national security. Brass mill products are used in a variety of military applications. While ammunition components are an obvious example, these materials are also vital to other military parts such as marine hardware, bushings, gears, aircraft parts, rivets and bolts, heat exchanger tubing, lead frames, communications systems, bearings, and others. If recent trends in export volumes of copper scrap are allowed to continue, production of copper and copper-alloy input material critical to national security might be jeopardized. Recently reported shortages of ammunition resulting from the soaring demand of two wars highlight the potentially devastating problem.

The CBFC and NFES Petition establishes that a shortage of copper scrap exists, that the shortage is directly related to increases in exports of copper scrap, that prices have risen dramatically, that the shortages and price increases have adversely affected the brass mill and copper foundry industries and that no other factor exceeds the impact on these industries that has occurred as a result of the short supply of copper scrap.

I request that you give the Petition filed by the CBFC and the NFES your full and timely consideration. Please do not hesitate to have your staff contact my office should you have any questions.

Thank you for your attention and assistance in this matter.

Sincerely,



Arlen Specter

AS/kac