

REMARKS BY

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BEFORE THE
BUREAU OF INDUSTRY AND SECURITY
UNITED STATES DEPARTMENT OF COMMERCE

HEARING ON
A PETITION FOR SHORT SUPPLY EXPORT CONTROLS
AND MONITORING ON RECYCLABLE METALLIC MATERIALS
CONTAINING COPPER

MAY 19, 2004

Good afternoon. My name is Robin Wiener. I am the President of ISRI - the Institute of Scrap Recycling Industries.

Director Hill, panelists, I cannot say that I am pleased to be here today. The copper and brass industry has wasted precious time and money on the part of industry and government alike on a frivolous petition in an attempt to shortcut the more appropriate means of gaining relief through a § 301 action. Because some in the copper and brass industry can't - or won't - deal effectively with foreign competition, this exercise will likely cost the scrap recycling industry over a quarter million dollars in unneeded research and legal expenses.

Allegations of a shortage of copper and copper-alloy scrap and that the price of scrap is threatening the existence of the copper and brass industry are completely without merit. Further, we believe the industry's efforts to short circuit the proper channels, and to have the US Government artificially interfere with a long-established marketplace, is not only misguided, it is dangerous with respect to future trade of the commodities at issue today, as well as for other U.S. products.

For the record, ISRI has publicly stated, and does so again today, that we would support a § 301 action to address documented unfair trade practices. ISRI is an organization founded upon both free *and* fair trade. When we were advised last spring of alleged unfair trade practices being conducted by certain foreign nations, ISRI came to the Commerce Department seeking ways to help some of our ingot-maker and wire

chopping members address unfair trade issues. We also sent a delegation to China, to discuss these issues directly with Chinese government officials and industry representatives.

My goal this afternoon is to provide you with information relative to the scrap recycling industry's role in our national economy as well as the global economy, some thoughts on why the petition for export controls should be denied and some comments on the disastrous effects that export controls can have on the industry as well as the copper marketplace.

Scrap Recycling Industry's Role in the U.S. Economy

Let me first discuss the scrap recycling industry's role in the nation's economy. Our industry directly employs over 30,000 people and processes over 125 million tons of recyclable materials each year, including more than 2 million tons of copper. ISRI members process and/or produce products worth at least \$30 billion a year. The use of these recycled materials generates tremendous environmental benefits and energy savings, a crucial point given the current energy situation. Last year the industry contributed more than \$5 billion to the U.S. balance of trade.

But scrap's contribution to the economy goes much deeper, since the feedstock that our industry provides to the mills, foundries, refiners, and others does not originate in our facilities. Tallying the economic impact of the scrap industry requires consideration of peddlers and collectors who provide materials to our processing

facilities. For many of these tens of thousands of individuals, selling their "wares" to the scrap recycling industry keeps them from dependency welfare and other social programs. Please keep in mind the potential for calamitous ripple effects when determining what, if any, action to take on this petition.

Why The Petition Should be Denied

As I mentioned at the outset, the copper and brass industry's petition should be denied and the reasons are clear. § 7 (c) allows for consideration of controls due to price or shortage of materials caused by exports. Neither applies at this time.

First and foremost, there is no shortage in the U.S. of copper scrap. The petitioners have offered no evidence of a shortage. In fact, many processors are reporting that mills are currently delaying receipt of purchased scrap for as much as 8 weeks due to excess inventories of raw materials on hand. With no real availability problem, the fundamental premise for the imposition of short supply controls does not exist.

In its comments, the copper and brass industry state their belief that copper-based scrap supply is largely unresponsive to price increases. However, the opposite is true. History shows a significant amount of elasticity of supply based on price. As prices for scrap materials increases, the volume of material brought to our facilities increases as the cost of recovery and collection of these materials becomes more cost-effective at higher prices. We have seen this phenomenon time and time again. We will

hear more about this subject, as well as the vast reserves of copper scrap currently available from Robert Damuth, of Nathan Associates.

But the key point with respect to supply, concerns our domestic industry's capability to consume all our domestically produced copper scrap. The petitioners incorrectly contend that exports have led to diminished consumption of scrap in the US while the data shows the exact opposite to be true.

The petitioners state that exports of copper began their rise in 1999. They acknowledge that the demand by the brass mills has been flat – not growing - since 1999, but they fail to note that the secondary copper smelting industry had been in significant decline for several years prior to that point, accelerating in 1997 and resulting in complete shutdown by 2001. In fact, the loss of this domestic capacity – amounting to 450,000 tons - is in large part responsible for the historical lows in copper scrap prices seen in the late 1990's.

Their petition also dramatically overstates the volumes of copper scrap exported by including foreign-based scrap that was subsequently re-exported. Last year's total of 754,000 tons was overstated by nearly 65,000 tons, or 9%.

With the loss of US demand for 450,000 tons annually of copper scrap, particularly lower, less pure grades of copper scrap our industry was forced to find a home for this material. Fortunately, over the last several years demand by foreign smelters began to grow for this material. Should these export markets now be cut off,

and with no domestic market available anymore, much of the scrap in question – some 450,000 tons a year - would likely end up in landfills.

The lack of evidence of a short supply of copper scrap suggests that this export control petition is actually an effort to control the price of scrap. But suggesting that export controls would resolve the problem for the copper and brass industry is not only incorrect, history shows that it could make the problem significantly worse.

We know this from the most recent case in which export controls were imposed some 30 years ago, in the case of ferrous scrap. A 1977 study published in *The Business Economist* determined that the domestic steel industry spent more than \$2 billion additional for ferrous scrap in 1973-74 than they would have had the export controls not been imposed. Clearly, this was the result of a global marketplace being thrown into disarray.

We believe this same dynamic would apply to copper export controls and could, perhaps, cause an even stronger global price reaction. While ferrous prices are based on direct trades between buyer and seller, copper's price - which is set on world markets such as COMEX and the London Metal Exchange - can also be impacted by speculators and investors. Removing hundreds of thousands of tons of copper material from the global marketplace would surely send prices up and not down. Put simply, copper has never operated in the vacuum of the US economy.

Those charged with the day-to-day operations of our economy largely agree that artificial, protectionist restrictions on free trade would be the wrong choice. At a conference in Pensacola, Florida on February 16, Dr. Tom Cunningham, of the Federal Reserve Bank of Atlanta was asked about the potential for export controls on U.S. scrap. His response was a very clear two words: "Bad idea." Federal Reserve Governor Edward Gramlich cautioned against trade protectionism in a story on the *Dow Jones Newswire*. He said, "...trade protection lowers a nation's standard of living."

Creating artificial barriers and, at the same time, taking action that would further negatively affect the U.S. balance of trade, is simply not a good idea.

I would also submit to you that, based upon the WTO rules, imposing export controls on scrap materials would not only be a misguided attempt to affect the global marketplace, it would also be a clear violation of those very rules: an unfair trade practice. It would be inappropriate for the US to address the unfair trade practices of some foreign nations by committing an unfair trade practice of its own by imposing export controls. The more appropriate course of action would be to urge other nations to lift export controls they may have and also to institute an investigation into any other unfair trade practices being committed by foreign nations.

In a recent letter to the National Association of Manufacturers concerning steel prices, Commerce Secretary Donald L. Evans stated, "I share your concerns that the controls that some of our trading partners have placed on the export of key raw

material inputs, especially steel inputs, may be contributing to higher prices and leading to supply constraints.”

By implementing export controls on copper scrap, the U.S. would engage in the exact conduct that the Secretary recognizes in his letter may violate WTO obligations. The US government would be better served by working with these other governments to remove barriers to free and fair trade than making the problem worse by imposing its own artificial market barriers.

At least one of the petitioners used to agree. Back in 1987, when certain European countries had placed export restrictions on copper scrap, Joseph Mayer, the then and current President of the Copper & Brass Fabricators Council, sent a letter to ISRI that said, --

“We do not in any way wish to restrict the activities of the U.S. scrap industry, and in fact, feel that ending distortions in the world scrap market caused by foreign restrictions will benefit the scrap industry as well as scrap consumers.”

Conclusion

Thank you for the opportunity to present our views on this important matter. I will be happy to receive any questions you may have. As I conclude, let me point out that ISRI did not seek federal assistance or protection when scrap prices were at record lows a few years ago. ISRI firmly believes in free and fair trade. ISRI understands the cyclical nature of this industry, where price peaks are often quickly followed by price

troughs. We knew in 2000 that scrap prices would not stay low forever, just as we know that times of high prices are very temporary. In fact, prices for copper scrap have already declined over 20% from their highs in early March. Prices for #2 have declined more than 25% from a high of \$1.26 in early March to a market that is closer to \$0.95 today. Prices for #1 – the favored feedstock for the brass mills – have dropped from a high in the low \$1.30s to about \$1.10 today. And the spreads between COMEX and scrap have widened to levels not seen in more than 2 years.

We have good years and we have bad years, but we strongly believe in the free market system.

Thank you.