By Ian Martin

Non-Ferrous

The 'curse' of theft and fraud

While there is some relief that non-ferrous prices have proved themselves reasonably robust during this most recent economic downturn, it was emphasised at the BIR Non-Ferrous Metals Round-Table meeting in Munich that high metal values can - and frequently do - create their own set of problems.

'There is nothing subtle about price movements any longer, no slow erosive fall or gradual climb in value, just sharp peaks and valleys,' it was acknowledged in Munich by BIR Non-Ferrous Metals Division President Robert Stein of US-based Alter Trading. And while it can be said that the scrap industry benefits from the historically high prices that are prevailing today, 'there is a difficult side to our success', he went on to insist.

Mr Stein identified three main sources of concern at the BIR Non-Ferrous Metals Round-Table, starting with what he described as the 'curse' of metals theft and fraud which occurs 'at every level of the business - from removing copper from construction sites to the removal of doors from export containers to steal high-value metals being shipped overseas'.

High prices are conducive to 'elaborate embezzlement schemes' and 'fraudulent swindles', he continued. 'Some of our members have fallen victim, and BIR has suggested - and does again - that members take every precaution in knowing who your trading partners might be. BIR continues to work with international police agencies and its member federations on these difficult matters.'

'Protectionist movements'

The second of the grievances aired by Mr Stein in Munich concerns the fact governments are continuing 'to enact policies that are detrimental to our business, that detract from our ability to recycle valuable commodities in a commercially feasible way'. He also attacked 'protectionist movements' that 'seek to inhibit the international trade of our products, often citing scarcity or environmental concerns as reasons to interfere on behalf of consuming sectors within their own borders'.

The BIR Non-Ferrous Metals Division has asked the world body's Brussels-based secretariat to gather statistics on international movements of non-ferrous metals so as to enable the industry to present 'substantive information' to members and to government officials as a defence against 'on-going false claims of shortages in domestic markets', Mr Stein explained to delegates

> David Wilson:
> *'...the markets are very much at the mercy of the nervousness of investors.'*

The third and final difficulty highlighted by Mr Stein concerns the challenge posed to the non-ferrous scrap industry by the indifferent economic outlook for most of the world. In this regard, however, he expressed confidence in the industry's resilience with the comment: 'We have survived the worst that difficult times can bring to us, and we have managed to thrive. We have to look forward with optimism as we change challenges to opportunities, problems to solutions, and adversity to prosperity. We've done it before.'

Ban in South Africa

Some of these same themes emerged in the latest edition of the BIR Non-Ferrous Metals Division World Mirror, which was officially released in Munich and which was reviewed at the Round-Table meeting by board member Bianca Vicintin Abud of the Tecal Aluminio Da Amazonia LTDA/Metalur Group in Brazil.

She highlighted intense concern over metal theft in, notably, Mexico and also South Africa where a ban is to be imposed on the possession of burnt copper wire, 'with the penalty likely to be imprisonment rather than a fine', she said. 'It is hoped such a measure will reduce theft because insulated wire is identifiable in terms of its source whereas burnt wire is not.' With less burnt copper available, the expectation in South Africa is of an increase in raw material costs next year 'owing to substitution with more expensive material', she pointed out.

The speaker went on to note increasing nervousness over the state of the world economy, with concern focused particularly on 'the debt crisis in Europe, the sluggish recovery in the USA and increasing credit tightness in China'. She added that, in scrap terms, there have been few signs of the 'widespread contract defaults, bogus claims or non-payment complaints that became all too typical during the downturn three years ago'. However, she did note feedback from Western Europe suggesting recent price declines had tempted buyers, especially in Asia and Eastern Europe, to 'launch quality and weight claims, even raising the possibility of cancellations'.

High energy costs

In her own country of Brazil, Ms Vicintin Abud identified a tangible sign of slower economic activity, namely the decision by some car producers to stop production for several weeks in order to reduce inventories and prepare for the effects of the crisis in the market. Some of the country's aluminium smelters have closed while the others are confronted with high energy costs.

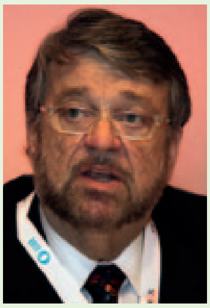
The main issue in China of late, she continued, has been the hold-up of shipments with a higher copper content at ports in Nanhai because customs officials and importers have not reached agreement on duty and VAT. Rules surrounding the loading of multiple items in the same container have been strictly enforced, she added.

Michael Jansen, JP Morgan.

Bianca Vicintin Abud, Metalur Group.

John Woehlke, CEO of Evermore Recycling.

David Wilson, Societé Générale.



Non-Ferrous Metals Division President Bob Stein.

Nervous investors

The Round-Table's guest speakers treated delegates to their own interpretation of latest developments in the world markets. According to David Wilson, Director of Metals Research in the commodities research team at Société Générale Corporate & Investment Banking in the UK, 'the markets are very much at the mercy of the nervousness of investors'.

He went on to suggest that copper prices would struggle in the short and medium term in response to weakening demand and an increase in production; mine supply is expected to grow more than 8% next year, it was noted. Prices of US$ 10 000 per tonne - 'or even US$ 9000' - are 'highly unlikely', said Mr Wilson, in venturing an average copper price prediction for 2012 of between US$ 7500 and US$ 8000.

Specifically in relation to China, latest data are suggesting 8% year-on-year growth in the Asian giant's scrap import tonnages but the copper content increase is 'significantly higher', Mr Wilson maintained, because of the effects of specification changes by the Chinese authorities. He also predicted in Munich that fixed asset investment will slow in China.

Flexing with demand

Turning his attention to aluminium, the speaker contended that supply is quick to respond to demand and price signals, with the Chinese, for example, having completed smelter expansions within six months. The light metal's ability to 'flex with demand' means that this market is less volatile than those of other non-ferrous metals, he said, in forecasting an average aluminium price of between US$ 2200 and US$ 2400 per tonne for next year. Aluminium values are being supported by the fact that some 70% of LME inventory is tied up in financing deals - 'with little sign of metal coming loose', according to Mr Wilson's presentation.

Aluminium also provided the theme for the speech of fellow guest John Woehlke, General Manager of Evermore Recycling LLC in the USA. He highlighted the scope for a massive increase in global aluminium can consumption over the coming years, particularly in the developing world. In terms of used beverage can (UBC) recycling rates, the world is 'doing pretty well', with South America setting the strongest pace on 93% whereas North America is 'lagging behind' on 58%, he pointed out.

Value retention

In a break with tradition, one of the guest presentations at the BIR Non-Ferrous Metals Round-Table in Munich was devoted to a precious rather than to base metals. According to Michael Jansen, Managing Director and Head of Metals Research, Global Commodities Group, at JP Morgan, gold 'has a history of retaining value' and its price is likely to exceed US$ 2000 per oz by the end of the year before settling back to a lower level for 2012.

Mr Jansen pointed out that a gold price above US$ 2000 per oz would be required to trigger the next release of scrap. He added that the platinum price has 'under-performed' in relation to gold but that the former's current levels are still 'not bad'. □