

BIR CONVENTION - Copper black market emerges in Mexico as police harrass scrap sector

By Gregory Holt, gregory.holt@fastmarkets.com

Singapore 24/05/2011 - Police in Mexico have used powers gained during the ongoing war against drug gangs to persecute copper recycling operations, causing some to shut down and enhancing black market trading, Alejandro Jaramillo, sales director at Recicladora Cachanilla said on Tuesday.

Scrap yards in Mexico have been plagued by police raids in the past month on the grounds of pursuing copper wire theft, Jaramillo said at the BIR convention. Some have temporarily shut down and personnel have been detained, and often the copper recyclers themselves risk taking the blame for the theft.

"In Mexico, different ingredients have combined to create a high-risk environment in the copper scrap industry," Jaramillo said. "These measures only incentivise the black market."

In order to take on Mexico's powerful drug gangs, local police have been empowered to search private property without a warrant and jail suspects of theft for two periods of up to 40 days each, Jaramillo said.

Making matters worse for the scrap yards, the complaints of theft are usually made by Mexico's state-owned power company CFE or telephone services giant Telmex, and these same companies are often called on to provide expert witnesses about the thefts, Jaramillo said.

"When the accusing party is also admitted as an expert witness, it is difficult to hope for a fair trial," Jaramillo said. "The leverage of the power company and Telmex is very large."

This has prompted some scrap yards to shut down and some companies to halt copper trading as a precautionary measure, while customs officers at Mexico's ports have created shortages of copper by detaining containers for inspection and delaying the delivery of the metal, Jaramillo said. As a result, many shipping lines, shippers and consignees are avoiding Mexican ports now.

As a result, a black market has developed for scrap copper - which makes up about 26 percent of the overall copper market in Mexico - while a growing number of consumers are substituting copper with aluminium or plastic, Jaramillo said.

(Editing by Perrine Faye)