DEPARTMENT OF THE TREASURY
United States Mint
Exchange of Coin
81 FR 75922

COMMENTS OF THE INSTITUTE OF SCRAP RECYCLING INDUSTRIES, INC.

The Institute of Scrap Recycling Industries, Inc. (ISRI) respectfully submit our comments and suggestions in response to the United States Mint's November 1st notice and request for comments regarding the suspension of the mutilated coin redemption program (81 FR 75922).

We would also appreciate the opportunity to meet with the appropriate representatives of the Mint and the Treasury to discuss this matter in further detail and determine how best to resolve this situation. We sincerely hope that our industry expertise could result in an approach that would allow the resumption of this important program with the necessary safeguards to protect the integrity of the program.

As stated by former U.S. Mint director Edmund C. Moy, "The U.S. Mint has an obligation to redeem damaged coins…there needs to be a mechanism to recycle coins." [1]

Background on the U.S. Based Recycling Industry
ISRI is the trade association representing the private, for-profit recycling industry, composed of approximately 1,300 companies at more than 4,000 facilities located here in the U.S. and in more than 35 countries that process, broker, and industrially consume scrap commodities, including metals, paper, plastics, glass, rubber, electronics, and textiles. Our members range from small, family-owned businesses to large, multi-billion dollar, multinational companies.

Recyclers are the first link in the manufacturing supply chain, supplying 40% of manufacturing's global raw material needs. Last year alone, the industry recycled more than 135 million tons of scrap, worth more than $80 billion, into specification grade commodities for productive economic use as feedstock materials by steel mills, foundries, paper mills, smelters, reformulators and other consumers in the United States and throughout the world. To accomplish this task, the industry employs 149,000 men and women, continuing its tradition of creating good paying, "green jobs."

Recycling and the Mint's Mutilated Coin Redemption Program
Recyclers across the United States have been recovering coins for decades. This practice began when recyclers would find loose coins that had fallen to the ground during the processing for recycling of cars,

[1] [1] Brad MacAulay, The secret jackpot in America's waste stream, American Metal Market, March 22, 2016, available at http://www.amm.com/Article/3539468/The-secret-jackpot-in-Americas-waste-stream.html

vending machines and other products. The business evolved with advances in sorting technology and the advent of new machinery capable of identifying very small items. As a result, the ability to purposefully recover coins in significant quantities grew quickly, and became an integral part of many recycling companies' operations, product mix, and bottom lines.

Shredding is the predominant method for recycling heavy steel-bearing end of life products into commodity grade products, including automobiles, appliances, coin operated laundry machines, and vending machines. In a typical shredding operation, a mixture of automobiles, appliances, and other such steel-bearing products are fed into a hammer mill, where they are shredded into approximately fist-sized pieces of steel. The steel, or ferrous metal, is separated using a series of magnets. Next, the stream is separated by size, and processed to recover the nonferrous metals (e.g., aluminum, stainless steel and copper) from the non-metallic materials (plastics, foams, rubber, etc).

During the lifetime of an automobile (estimated at between 10 and 12 years in the U.S.), most drivers manage to lose a fair number of coins to the cracks in seats and the areas under seats. Many people also forget to remove the coins they store in their car for use in parking meters and the like before their car is sold. Similarly, it is surprising how many companies operating vending machines and coin operated laundry equipment fail to remove remaining coins before sending the machines for recycling. As a result of all of these practices, a large number of coins end up in the shredding stream.

As the coins travel through an auto shredder, they become bent and twisted and ultimately end up in the nonferrous mixed metal stream (known as "Zorba") leaving the shredder. [2]

Beginning roughly around 2003, the vast majority of Zorba generated in the US began to move to China due of the high demand for aluminum within that country. In addition, the extraordinarily low cost of labor in China allowed Chinese companies to hand separate the various metals contained in Zorba at a rate lower than the cost of mechanical sorting in the U.S. Hand picking of the material resulted in a far greater quantity of coins being recovered than ever before, hence the sudden increase in the amount of US coins being redeemed at the Mint by foreign companies. Competition by Chinese companies to purchase US manufactured Zorba was exceedingly fierce and the Chinese processors began to calculate the value of the recovered mutilated coins into the price they would pay for the Zorba. The resultant price increase forced US based companies to do the same and today it is common practice to calculate the value of recovered coinage into the price paid for Zorba.

Following the global economic crisis in 2008, and the concomitant leaps forward in technology for sorting metals as well as the increases in Chinese labor costs, Zorba processing began to move back to the US and large amounts of coins began to be recovered by domestic US companies engaged in recycling. That is why today, there are a significant number of recycling companies here in the US that are recycling Zorba and the amount of coins redeemed by US recyclers has increased so significantly.

Impacts on the Scrap Recycling Industry

The moratorium placed on the mutilated coin redemption program that has been in effect for over a year is having a significant detrimental economic impact on U.S. based recyclers who, suffering from low

[2] **Zorba is a specification grade commodity, which is a combination of aluminum, copper, lead, magnesium, stainless steel, nickel, tin, and zinc.**

prices and very slim margins for several years, are now facing additional financial difficulty because of their inability to redeem the mutilated coins they have in inventory.

While ISRI fully supports enforcement activities against those companies that abuse the redemption program through the attempted sale of counterfeit coins, we do not see the need for a blanket moratorium that effectively punishes all those who legitimately rely on the program for their ongoing businesses. Instead, we believe that the mutilated coin redemption program should resume as soon as possible while the Mint and ISRI can meet to discuss the Mint's specific concerns. We can only speculate at this time on the type of problems that the Mint is seeking to address, and we are unsure whether additional safeguards are needed, but ISRI will provide comments on the four suggested safeguards that the Mint is requesting comments on. ISRI looks forward to meeting with the Mint to further understand the underlying issues and will refine its comments to help address specific issues.

Safeguard Suggestions

ISRI offers the following suggestions to assist in the immediate resumption of the mutilated coin redemption program. We suggest the resumption of the program could occur in in two (2) phases to help enable the US Mint to establish effective safeguards. First, an interim domestic supplier program could be established to both redeem the accumulated coins and resume regular coin redemption. This interim program could be made permanent if proven successful and is determined to be sufficiently needed. Following a successful evaluation of new domestic safeguards, the safeguards can be extended to foreign producers as quickly as possible.

1. ***Certification*** – ISRI suggests that a "registered supplier" program could be established. Such a program would require anyone who wants to redeem the scrap value of mutilated coins would first register with the U.S. Mint providing basic information such as their physical business address and contact information and agree to allow random inspections by the U.S. Mint. We would respectfully suggest that the inspections are not necessary before resumption of the mutilated coin program. Instead, the U.S. Mint could impose a requirement that registered suppliers acquire a temporary surety bond in order to participate in the registered supplier program. In those cases where the Mint has substantiated concerns, a surety bond, in an amount not to exceed the value of the redemption, could be required for a specific supplier(s) whether domestic or foreign. Of course, the Mint would reserve the right to deny any individual redemption and remove any registered supplier if such concerns occurred. We feel this program of safeguards would provide effective incentives while continuing to provide adequate enforcement.

   By imposing a temporary surety bond as part of the registered supplier program, the Mint would only need to inspect facilities when they suspect a problem or possibly on a routine basis. The scrap recycling industry would welcome the opportunity to work with the U.S. Mint towards developing such a registered supplier program and related inspection protocols.

   ISRI would also welcome a regular meeting or when a situation arises where both the U.S. Mint and the scrap recycling industry can continue to share ideas and concerns and thus avoid another extended suspension of this vitally important program to the scrap recycling industry and the U.S. Mint. We share the Mint's goals of ensuring this program operates effectively and impose practicable safeguards when necessary.

2. ***Annual Limitations*** – There should not be any annual limitations. If the Mint were to establish a registered supplier program as suggested above, there would be no need to impose an arbitrary annual limit on the amount of redeemed mutilated coinage.

   Even without a registered supplier program, scrap processors have little control over how much scrap and thus how many coins they recover in any given period. This lack of consistency is because scrap processors get varying amounts and volumes of used automobiles and vending machines from which they recover coins. For instance, when economic conditions are not favorable, drivers normally own their vehicles for longer periods resulting in less cars being delivered for scrap. As a result, there would be less recovered coinage during some years and more in others.

   There are also regional differences such as weather and economic conditions that make an annual limit impracticable. In some areas of the country, chemical treatments for ice and snow factor into shorter vehicle lifespans while in dry arid areas, cars may be operated for substantially longer periods of time. And, following major weather events such as hurricanes, tornadoes, or ice and snow storms, there is normally an influx of cars, both new and old, having varying amounts of coinage that are deemed "totaled" by the insurance industry and arrive in scrap yards over the next few months and many times, overlapping the calendar year. To complicate matters, some years there is an increase in the amount of storms and damage while other years are more tranquil.

   As a result of these economic, regional or weather related events, it is not possible to accurately predict the amount of coinage that will be recovered and thus redeemed in any given year making an annual limitation impracticable, arbitrary, and unnecessary.

3. ***Chain of Custody*** – ISRI is uncertain where such a chain of custody would begin or how it could be properly documented. It is simply impossible to quantify the amount or the origin of coins that are in a shipment of "Zorba" since the feedstock constantly changes. We would suggest these concerns would be better and more effectively addressed through the registered supplier program provided above. We pledge to work closely with the U.S. Mint to identify certain protocols to help relieve the Mint's chain of custody concerns.

4. ***Material Authentication*** – As suggested above, a registered supplier program with the ability of the Mint to be able to inspect facilities, the need to authenticate the material is unnecessary. However, the Mint could develop an interim authentication program to randomly inspect a sample of redeemed coins or continue the existing testing program used today. Again, we welcome the opportunity to work with the Mint to develop effective sampling and testing protocols to address these concerns.

Conclusion

The scrap recycling industry has been significantly and adversely impacted by the suspension of the U.S. Mint's mutilated coin redemption program particularly in light of the depressed global commodity markets. The suspension of the program has imposed an additional hardship on the scrap recycling industry that is made up of many small and medium-sized family-owned and operated businesses who depend on the mutilated coin redemption program. The extension of the moratorium on this program has also brought much uncertainty.

We fully share the U.S. Mint's concerns about the integrity of this important program and have repeatedly pledged to offer our suggestions and advice. Therefore, we welcome this opportunity to provide those suggestions and the opportunities to work with the U.S. Mint to develop effective and practicable solutions to ensure the integrity of this program. We sincerely hope that with our suggestions for effective and practicable safeguards as well as our commitment to work with the U.S. Mint, you will resume the operation of this vital program as soon as possible. Thank you for your consideration.

Respectfully submitted on November 15, 2016

Robin Wiener
President