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Good afternoon.

I am truly honored to be here representing the Institute of Scrap Recycling Industries

ISRI represents more than 1,650 private, for-profit companies that process, broker and consume scrap commodities, including scrap metal, paper, plastics, glass, textiles, rubber, and electronics. ISRI's membership also includes suppliers of equipment and services to the recycling industry. Approximately 80% of our members are based in the United States, with the remaining 20% located in more than \_\_\_ countries worldwide. We currently have around a dozen members that are either Mexican companies or U.S. companies with Mexican operations.

The scrap recycling industry represented by ISRI, handles well over 150 million metric tons of recyclables each year in the US - destined for both domestic use and export markets. This figure includes some 81 million tons of ferrous scrap, 49 million tons of paper, 5 million tons of aluminum, 1.8 million tons of copper, 2 million tons of stainless steel, 1.3 million tons of lead, 420 thousand tons of zinc, 576 thousand tons of plastic, 1.8 million tons of electronics and 93 million tires. The value of these materials exceeds 71 billion dollars annually.

The export trade is an integral part of the US scrap marketplace. We estimate that approximately 30% of the scrap processed in the US is destined for export. Last year, nearly \$22 billion of scrap (or 38 million tons) was exported from the US to 152 different countries worldwide. Mexico consistently ranks in the top 10 of U.S. export markets regardless of economy. The U.S. is a net importer of aluminum scrap from Mexico and a net exporter of ferrous scrap to this country. Overall, Mexico enjoys quite a trade surplus with the U.S. Last year, that trade surplus was some 45 billion dollars. Through September of this year, that trade surplus totals over 37 billion dollars.

I have been asked to talk a little about the current state of the scrap markets and the influence of countries such as China, India, and Korea. Let me start by saying that from the perspective of the scrap industry, there has been a huge shift in conditions and outlook just in last 6 weeks. As you are no doubt aware, the United States is reeling from the effects of the sub-prime mortgage crisis that has created disarray in the financial markets and spread throughout our economy. U.S. manufacturing is down, construction has fallen off dramatically, retail sales are suffering, and unemployment is rising. These factors, combined with the precipitous drop in global scrap commodity prices have caused a dramatic slowdown in the flow of scrap materials into processors yards.

The U.S. government is in the process of implementing a \$700 Billion rescue package designed to address the crisis in the financial sector. There are discussions amongst some of our governmental leaders about implementing an infrastructure development program that would spur construction, lead to increases in basic metals production and result in significant new jobs.

However, even if the program is enacted by the Congress, the effects would likely not be felt for some time, due to the requirements for design and bidding before firm orders can be placed.

Thus, it is likely that the current scrap situation in the U.S. will not turn around very soon.

So where is the market for steel products and scrap heading?

The domestic steel market influences that we've been highlighting in our reports, namely, low imports of finished steel, relatively low steel service center inventories, increased steelmaking input costs, and a weak dollar that has propelled exports of both ferrous scrap and finished steel, were important price drivers. But a lot has changed. And quickly.

September's year-to-date world crude steel output was figured by the World Steel Association at 1,035.8 million mt, up 4.6 percent from a year ago with China producing 391 mmt of crude steel over this same period, an increase of 6.2 percent, but analysts now think that China's production this year will be closer to 515 - 520 mmt, up about 5 percent over 2007 with total global output expected to be higher by around 3 percent over last year.

U.S. steel production, meanwhile, was placed at 76 mmt, up 4 percent over comparable 2007 data. Although the production pace has slowed in September, steel imports are also sharply lower: August imports, at 2.13 mmt, were the lowest monthly total so far this year.

The downward sloping lines may be with us for a while. As we've already noted, recent near term forecasts for domestic HR from our friends at World Steel Dynamics and others, all point

south...the latest from UBS Investment Research, for example, has HR at \$825/net ton for the fourth quarter of this year compared with an earlier forecast that was closer to \$975. Next year, the firm is looking at a \$816/ton average.

Goldman Sachs paints a far more depressing picture as global steel buying, they say, “has almost ground to a halt...” Consequently, they’ve lowered their U.S. forecasts considerably and now see HR averaging \$767/ton this final quarter. For 2009, Goldman Sachs has HR averaging \$677 – that’s almost 30% lower than their previous forecast! As for ferrous scrap, despite the recent price falls, “...we still do not see a bottom in scrap prices.” 2009 mill shipments were estimated to reach 101.8 million short tons, down 8.7% from their 2008 shipment estimate.

Morgan Stanley’s latest on the domestic steel industry looks downright rosy compared with Goldman Sachs – they see next year’s HR coil average at \$841 per net ton.

As for domestic ferrous scrap prices, prices fell sharply again in October. As the month began, most sources had prompt material off by \$350/gross ton (or more) compared with September, with some obsolete grades, such as shredded, down by \$70.

As October was winding down, other published sources were reporting bushelings ranging from \$239.50 to \$251. For shredded material the most current range was from \$225 to \$240, delivered. Prices are changing fast and only in one direction. Last week’s *Iron Age* publication is showing its No.1 HMS composite @ \$182.50 and its Chicago bushelings price @ \$214.50.

Looking closer at ferrous scrap trade, China (plus Hong Kong) imported 1.255 million metric tons of ferrous scrap from the U.S., down almost 4 percent compared with the January-August period of 2007. For all of 2007, ferrous scrap imports from the U.S. totaled 1,857,825 tons.

One final note on total U.S. scrap trade to China (plus Hong Kong) and that total includes scrap precious metals, and many non-metallics such as scrap paper and plastics, year-to-date totals are approximately 9.5 million tons valued at \$5.8 billion dollars, up 23 percent versus comparable 2007 export data.

Looking first at copper, and following a first quarter firming trend, the traditionally stronger second quarter has, however, seen prices for refined copper soften and then spike higher with a global market that was struggling with record-setting crude oil prices, the weak U.S. dollar, ongoing macro economic worries, the huge earthquake in China, and an absence of aggressive Chinese buying.

Although current market confidence has been severally dented, some believed that global refined supply in 2008 may not match earlier expectations due in large measure to labor issues that could limit production. Some independent forecasts point to a global and Western copper market that may end the year in deficit further straining relatively low above ground inventories, thereby keeping prices above last year's average. Others, however, are far less convinced and are forecasting a global supply/demand balance that shows a surplus. Through July of this year, global copper is in surplus to the tune of 166,000 mt (seasonally adjusted,) according to the

International Copper Study Group (ICSG) (Lisbon.) The ICSG forecasts the global refined copper market will post a 109,000 ton surplus this year and 277,000 tons in 2009.

Scrap trade to China (plus Hong Kong) for the U.S. remains extremely important to both Chinese end users and U.S. scrap processors and brokers. Through August of this year, China (plus Hong Kong) imported around 492,000 metric tons of copper scrap from the U.S., an increase of 16 percent over comparable 2007 figures. For all of last year, the total was 657,522 mt.

Looking next at copper prices, only a month or so ago, Citigroup upped its 2008 copper forecast average to \$3.56 per pound. Macquarie Research has also recently rethought copper's fundamentals for 2008 and beyond and has subsequently lowered their forecasts. They are less bullish on copper today than before. Who isn't?

A few months ago, the *Reuters* survey of some 46 commodity analysts came up with a consensus average price for copper for this year of \$3.66 per pound along with a global copper market that is expected to end the year in a deficit position. As you are all aware, however, copper has been sold off sharply over the past weeks, trading at multi-year lows, so all these copper forecasts now look wildly optimistic.

Just last week, in fact, Deutsche Bank placed global GDP figured at 1.2 percent growth next year and with it, a copper average of \$1.89 for the full year. Brokerage firm Sanford C. Bernstein also sees lower global growth and a copper average below \$2.00 next year.

For most, the markets that ISRI is closest to appear almost overwhelmed by negative sentiment that has resulted in lower lows on the LME and Comex, reinforced by evidence of a weaker global economy going forward and exacerbated by raw material inventory increases. What was termed earlier as a synchronized global expansion that characterized the past several years is now seen in some circles as the start of a synchronized global contraction.

If correct (or even close to being correct) the metal working industries here and abroad are on the front line given the demonstratable close relationship to industrial production and metal consumption. Thus, while many still hold on to the notion that the global economy will continue to expand (i.e., those in the so-called Super Cycle camp) that does not mean that despite the notion and evidence of longer term secular growth, paced by the developing nations, markets are not immune to cyclical downturns that may prove global in nature.

Moving on...

Aluminum. While certainly not immune to market volatility, relative price stability has characterized the global aluminum market over the past two years with the LME three months quote averaging \$1.18 per pound in 2006, \$1.21 in 2007, and through almost nine months of 2008, \$1.28 (YTD through 26 September). This, too, has changed with LME cash prices falling by some 26 percent between September 1<sup>st</sup> (LME cash = \$2,646.50/mt) and October 27<sup>th</sup> (LME cash = \$1,950.00/mt) trading at a three-year low.

Higher trending prices in the second quarter of 2008 were traced to fast rising energy costs, and subsequent smelter curtailments, that now have market participants divided over aluminum's fundamental balance this year, and next, despite relatively large above ground inventories and modest North American consumption prospects. Most, however, now see global aluminum supply market overwhelming consumption prospects this year and next. On July 7<sup>th</sup> three months aluminum traded at an all time high of \$3,327/mt (\$1.51/lb). The Reuters survey, meanwhile, came out with a cash average of \$1.35 per pound. Today, LME aluminum is closer to 85-90 cents. Deutsche Bank's latest forecast has LME cash aluminum averaging 85 cents in 2009.

Aluminum scrap sold to China (plus Hong Kong) from the U.S. has been setting records all this year. Through August, China (plus Hong Kong) has imported 718,000 tons of aluminum scrap from the U.S., 39 percent greater than the same period in 2007. For all of last year, China imported 843,052 tons.

Nickel's downward price trend was a major feature in the second quarter of 2008, and it hasn't gotten any better in the third quarter. The price decline was based on the absence of an anticipated pick-up in stainless steel demand along with additional cutbacks by Asian stainless producers, and LME nickel inventories that have held relatively steady since year end 2007.

While languishing, the expectation was for the stainless market to show modest recovery in the second half of '08 along with a decline in nickel pig iron from China and the potential for additional production losses in Western Australia. Consequently, many analysts were unsure whether this year's nickel supply/demand balance will eventually post a global surplus, deficit,

or be balanced. To us, however, it looks like we'll see a statistical surplus given the weak demand outlook for nickel this year as a whole.

Earlier, LME nickel was forecast to average \$11.66 per pound this year with the high average coming in at \$15 and a low of \$9.66, according to the July Reuters survey. Year-to-date (through October 27th,) cash nickel has averaged \$10.67 below that \$11.66 forecast. Again citing Deutsche Bank, they see nickel averaging \$4.66 next year.

Zinc: In contrast to lead's more constructive supply/demand balance, latest published data showed global zinc supply well above the reported demand. LME zinc inventories are up more than 90 percent through end-October and transacted prices have slipped below 55 cents per pound, thereby becoming the worst-performing LME base metal so far this year. For perspective, last year cash zinc averaged \$1.47. The near term outlook is also far from encouraging with fresh supply outpacing consumption thus suggesting even higher LME inventories ahead and additional downward pressure on prices in the second half of the year.

Most analysts agree that rising zinc mine supply is a key factor going forward but that China will remain a wild card influencing the overall supply/demand balance. Virtually all, however, expect to see a zinc surplus this year. The Reuters average came out with a \$0.99 average.

As for lead, the global supply/demand picture through the first four months of 2008 revealed a market that was trending towards slight surplus, easing a perceived tightness that sustained LME (3-months) average prices above \$1.30 per pound over the first quarter of the year.

By mid-year, prices slumped to the low-80-cent level with LME inventories more than doubling from year-end 2007. The near term suggests that lead will remain close to balance but that positive global demand, coupled with an unsure supply pipeline, also hints that the lead market may be subject to supply-inspired price spikes during the second half of the year. We saw lead recover very strongly through most of July and early August as LME inventories fell amid reports of lower-than-expected Chinese lead production and lower net exports to the West.

The Reuters survey for this year placed lead's annual average at \$1.05 per pound. Again, all these earlier forecasts look wildly optimistic.

With regard to China specifically, there are some very serious complicating factors that may affect future business between the U.S. and China. ISRI has heard reports from an astonishing number of our members, both in the United States and around the world, of Chinese buyers failing to pay for scrap shipments, renegeing on open contracts, and seeking extraordinary discounts from the contracted price for scrap materials after those materials have reached the Chinese ports. In many cases, we have also heard from shippers who have been carrying on business with their buyers for many years, without any significant problems, suddenly receiving dramatic quality related claims.

Ladies and gentlemen, we know these are hard times for everyone around the world, and while I trust that none of you would conduct business in these ways, I am afraid that the whole industry here is being tainted by the actions of those who are very shortsighted. We implore you to speak with your colleagues in the industry here in China, to make them aware of the great necessity for viewing the current situation in the context of long term relationships.

I have been around the scrap industry for over twenty five years, and if there is one thing I know it is that this industry is highly cyclical. We may be at a low point now, but good times will return. I wish you the best of luck in getting through the current times and hope that we will enjoy brighter markets by the time of the next conference. Thank you.

After riding high for nearly all of 2004, ferrous prices took a dramatic fall during the second quarter of the year, briefly plunging into territory that concerned us all. Traditionally, the economic cycle of the scrap industry shows that a sustained period of price growth in ferrous metals is usually followed by not only a fall in prices, but a steep fall. And, traditionally, it can take the markets a year or more to climb back out of the trough.

Fortunately for our industry, economic fundamentals, while not unanimous, suggested that the rough we experienced in the spring would be brief and, to our relief, these fundamentals appear to have been correct. Prices have rebounded for now – certainly not to the record levels seen in 2004 and early this year, but to levels that are healthy for our industry.

For aluminum and copper, 2005 has been a year not unlike 2004 was for the ferrous market. This month, aluminum prices have hit ten-year highs with many forecasters suggesting that we shouldn't encounter any significant change for the next several months. In fact, many analysts are actually raising their projection for the coming year.

2005 has also been a banner year for refined copper, with prices on the LME and Comex breaking one record after another. Copper has experienced both supply and demand pressure for most of the year. Labor disputes and production problems, among other things, have had a tight grip on copper supplies, while consumption, in the form of consumer restocking, price speculation, and continual buying of metals hedge funds have driven the price on the demand side. In fact, prices in November are at all-time highs.

Zinc has also experienced an impressive run-up, recently visiting an 8-year high.

While we're on the subject of copper, let me step back into 2004 before we discuss the future. The pressures we saw on copper supply in 2005 were basically a continuation of pressures we had seen the previous year. A worldwide shortfall of copper cathode led to scrap prices reaching record levels in 2004.

The intensity of that pressure showed itself early in 2004 when organizations representing the copper and brass industry in the United States filed a petition with our government requesting export controls on copper scrap. Many of you are aware of the intense debate that occurred surrounding this issue.

U.S. law allows our government to restrict the export of scrap metals under certain circumstances – specifically when there is a demonstrated shortage of material that could have a long-term impact on our country's economy.

ISRI vigorously opposed the export control petition providing substantial amounts of information to our government showing that copper scrap was not in short supply in the United States. In fact, the export of this material to other countries is a benefit to the U.S. economy.

In July of 2004, the U.S. Department of Commerce released its decision agreeing with the scrap recycling industry and denying the export control petition.

Since that time, ISRI has been working with our consuming members and their affiliated trade organizations to seek the assistance of the U.S. government in convincing other countries to drop trade barriers to allow for complete open markets for scrap materials. It is our belief that, when allowed to operate openly, the scrap market itself is the best regulator of supply and demand.

As I mentioned moments ago, there is no demonstrated shortage of scrap materials in the U.S. at this time. As has proved true many times, the scrap market is elastic. As prices have increased due to increased demand, we have seen an increase in the amount of obsolete materials entering our scrap yards. While we acknowledge there are some issues that impact scrap, including rising energy prices as well as the cost and availability of transportation, the availability of scrap materials remains strong enough to satisfy the demands of both our domestic and international customers. We do not anticipate a change in that status anytime soon.

I've provided all this information to give you some historical perspective of the scrap industry as we see it in the United States. But you asked me here today to talk about 2006 and the worldwide situation for scrap. To the extent I can, I'm happy to give my general perspective – as long as we understand that this is just my best guesses.

As for the near term outlook, ISRI does not forecast prices for scrap - or anything else for that matter - for two important reasons. First, we would probably never be correct and even if we were, it would not be for the right reasons. And second, the Antitrust Division of the United States Department of Justice would be very displeased since our association represents both buyers and sellers of scrap materials.

Predicting the future for scrap is always a difficult challenge. But this year, the difficulties are multiplied for five reasons: Inflation..., Energy..., Transportation..., Katrina..., and China. Each of these impacts our industry in enormous ways.

First, inflation. Inflation remains a persistent fear for the controllers of monetary policy in the United States even though it has remained fairly well under control until now. The Federal Reserve Board, which sets monetary policy in the U.S. has been slowly, but consistently, raising interest rates for several months now in an effort to keep inflation under control while not doing damage to our economy. Internationally, the U.S. dollar has remained fairly weak, though not as weak as it was earlier this year. From the perspective of the U.S. scrap industry, this is a positive force on our ability to export. If the dollar remains weak, as some predict, our industry's export market should remain strong. If the dollar strengthens, it could put pressures on countries now buying U.S. scrap which could signal lower prices.

Second, energy. The cost of energy has soared in the United States and worldwide in the past year. Energy costs, which have always been a significant cost to operations, continue to put pressures on scrap production and transportation. Similarly, our consumers, who require enormous amounts of energy to create their products, are feeling the pressure. As these costs rise, they are impacting our economic chain from top to bottom and analysts see the potential for lower Gross Domestic Product figures worldwide.

In the next six weeks, we will likely get a better picture of the impact that energy costs are having on the United States as shoppers prepare for Christmas at the same time that their first winter heating bills arrive. If energy bills significantly depress holiday shopping, we can expect analysts to bring forecasts even lower for 2006. If consumer spending remains strong – or at least not as weak as many fear – we may find world economic analysts in a better mood in

January. Currently, crude oil futures are on a downward trend, though few analysts expect that to continue.

Regardless, most energy analysts do not see any significant lowering of energy prices in the next decade. Our economies and our industries, are going to have to absorb these costs by whatever means they can. Our level of success in absorbing these costs will determine the near- and mid-term impact on our industry.

My third factor to watch is transportation. Across the United States, scrap processors are feeling the affects that transportation can have on our industry. This is particularly true in the South – where I live and work.

This transportation concern is seen in rail, in truck transportation and, recently, in ocean-going transportation. Across the country, many of our members have experienced shortages – sometimes severe shortages – of rail cars to move our materials to our consumers. These shortages are the result of many factors – seasonal demand for rail cars, a lack of investment in our country's rail infrastructure, and an apparent lack of interest on the part of the railroads to move scrap materials. ISRI has been working with our consumers and with other industries to open communications with our federal government and with the rail industry to address these issues. It is important that we make significant improvements soon.

Truck transportation is an alternative, but rules governing truck weight and recent rule changes addressing driver hours of service have push our country, and particularly our industry, into a

problematic situation as well. Overcoming this issue will likely require both changes in our industry as well as concessions from our government.

Even more recently, we have seen a new system put in place at ports of Long Beach and Los Angeles, California that is raising further concerns for our industry. The new program, called PierPASS puts an 80 dollar per container fee on full containers picked up from or delivered to the ports during peak daylight hours. The intent of the program was to help even out traffic at the ports, reducing shipping during daylight hours and shifting some of that traffic to evening hours.

While PierPASS has been good for many large retail industries in the U.S., ISRI has voiced strong opposition to PierPASS due to its unintended consequences on smaller industries. We feel PierPASS places an undue burden on these industries that do not have the night-time capacity to ship or receive materials in the way larger industries do. This places an undue burden on smaller industries that are forced to pay the new fee in order to move freight during their operating hours. Further, we are concerned that other ports that may adopt this type of plan may not adequately shift the labor required to move freight in the off hours which could significantly slow down the shipment of products.

My fourth point to watch in the coming months is the impact of Hurricane Katrina and, to a lesser extent, the other major hurricanes that hit the United States this year. No doubt, the hurricanes experienced here in Mexico will also have an impact.

After any hurricane, our industry experiences an upsurge in available scrap material coming into our process chain. Traditionally, the appearance of this material has an impact on prices.

Hurricane Katrina and the other hurricanes have left an enormous amount of potential scrap material in their wake. It is estimated that there could be as many as three- to five hundred thousand vehicles headed to scrap yards in the coming months as well as untold number of household appliances and other materials gathered in the cleanup process.

The pace at which this material enters scrap yards will clearly impact our industry. But we will also feel an impact from the amount of new materials that will be demanded to rebuild after these storms as well. Many analysts have raised their predictions for the demand for finished steel, as well as for aluminum and copper materials in 2006. How this new demand balances with products already produced and with the supply of materials coming in from the cleanup is yet to be determined.

Finally, there is China. In recent years, China's economic growth has outpaced even the most robustly positive predictions from world analysts. Their appetite for scrap materials has been unmatched in history and this has clearly had an impact on the economic cycle of scrap materials. Regardless of commodity, China figures significantly into analysts predictions. Our industry will be buoyed as long as their appetite for scrap material remains strong and their ability to use this material domestically remains strong.

But, along with their growing economy in China has come a growing concern about environmental issues. This new, increased awareness has led to China's refusal to become an

environmental dumping ground for the rest of the world – and rightly so. Yet, their efforts to control this concern, particularly with regard to scrap, have not come without difficulties. In 2004, the AQSIQ, China’s standardization agency, instituted a licensing procedure for companies importing scrap materials into the country. In the process, there have been several missteps that have led to confusion and complications for scrap exporters, for inspectors, and for the Chinese government.

ISRI has played a leading role in trying to overcome the problems with AQSIQ licensing for our members and for our overall industry. In the past two years, we have made several trips to China to hold face-to-face meetings with Chinese officials, hoping to resolve issues as they come up. We have been largely successful and expect to continue to build on the relationships we have made as we seek to maintain and improve our trade efforts with China.

So, to your question of the day: What is the worldwide outlook for scrap in 2006...

We know that, in our fast-paced world, anything can happen. Were I able to accurately predict the future, I can assure you that I could find success in any industry.

The best I can tell you is that, barring unforeseen circumstances, most indicators I see suggest a good year, if not a record year, as long as the fundamentals can remain balanced and the positive and negative pressures we face from issues like inflation, energy, transportation, weather, and China can remain in balance.

One major key to our success in both the short and long term is our ability to maintain a global marketplace for scrap.

ISRI believes that worldwide trade is good for our industry regardless of country. We believe that open markets, free of trade barriers, are vital to maintaining a healthy and vibrant scrap industry.

Further, we are dedicated to improving the worldwide quality of scrap materials. Helping our members provide quality products is a main goal of the Institute of Scrap Recycling Industries.

Over 85 years ago, the predecessor associations to ISRI began creating specification guidelines to assist processors and customers in the buying and selling of scrap materials. Throughout the years, ISRI has maintained these specification guidelines that now cover scrap materials including ferrous, nonferrous, paper, plastic, glass, rubber and electronics recycling materials. These guidelines have been translated into several languages and have become a standard for the trade of scrap in many areas of the world.

We are very pleased to see what is now truly a global acceptance of these specifications that can assist greatly in a better understanding of product specification and higher quality shipments domestically and worldwide.

When I was coming to Mexico City, it occurred to me that my trip here takes no longer and is actually no further from my home than taking a trip to California. That revelation set me to wonder why there is not even more cooperation and communication between the United States' scrap industry and Mexico's scrap industry.

I am honored that you invited me to speak to you today. I hope that my presence here can lead to a stronger, continued dialogue between our industry's leaders. I want to invite you to come to ISRI's annual convention to be held April 2 through 6, 2006 at the Mandalay Bay Resort and Casino in Las Vegas, Nevada. ISRI's convention features the world's largest scrap recycling industry trade show and draws more than 3,000 scrap industry professionals from over 30 countries. Your presence at our convention would not only provide you with much information that could benefit your companies, but would provide our members with a better perspective on recycling in Mexico as well.

For each of you, and for myself as well, I extend the wish for a successful 2006 and a bright future. Again, I appreciate the opportunity to speak with you today.

Gracias. Thank you.