Missouri Auto & Truck Recyclers NEWS

Serving the Membership of the Missouri Auto & Truck Recycler Association

February/March 2014

Legislative Update

By Brian Bernskoetter

The 2nd Regular Session of the 97th General Assembly began on January 8, 2014.

The General Assembly and the Governor remain on divided on two major legislative initiatives from last session that will carry over into this year's legislative session.

The General Assembly lead by strong republican majorities will again push for a business and personal income tax cut which the Governor vetoed last year and the House of Representatives failed to override during the Veto Session. The premise of the income tax cut is expected to be the same as last year with gradual income tax cuts over a period of years provided that income tax collections continue to grow.

The Governor is renewing his push to expand Medicaid in order to draw down the federal incentives related to expansion. Sub-committees of the House and Senate held meetings during the interim to study the Medicaid expansion and reform. It appears unlikely at this point that Medicaid expansion will pass this session because of some staunch opposition in the Senate.

Other major issues for this session include: making Missouri a "right to work" state, addressing the unaccredited school districts in St. Louis and Kansas City, and tax credit reform.

One component that will likely be missing from this year's budget discussions is the revenue shortfalls. While Missouri is still below historical highs collections tax revenue year to date is up nearly three percent.

There have been a few news articles this summer and fall about the problems that were created when the legislature passed a bill allowing cars 10 years or older to be sold on a bill of sale. This has increased the incidents of car thefts, particularly in urban areas, and has created problems for reputable shops. There are three bills currently filed to either do away with the provisions or modify them to only allow for vehicles 20 years or older to be sold on a bill of sale.

MATR Dates of Interest

May 2014

16 **Legislative Session Ends**

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- The MATR maintains a worldwide web site at www.matronline.com featuring information about the industry for consumers, a membership and associate member on-line roster with direct links to their web sites.
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Slow Going

No dramatic plunge has occurred, but the pricing trend line for ferrous scrap has been pointing downward for the past 18 months.

By Brian Taylor, Recycling Today Editor

Ferrous scrap recyclers have several unpleasant near-term memories they can draw upon to recall when conditions were worse than they have been in the summer and fall of 2013.

However, unlike the frog who sits comfortably in warm water as it is slowly brought to a deadly boil, many of them have been sensing that the market has steadily become less enjoyable throughout 2013.

Statistics for pricing and export volumes and those in the ledgers of publicly traded companies show that the first nine months of 2013 can hardly be described as prosperous, and few forecasters are predicting a final quarter boost to close out the year.

Waiting for a Spark

Metals recyclers who gathered in mid-September for the 2013 Commodities Roundtable Forum, hosted by the Institute of Scrap Recycling Industries Inc. (ISRI) in Chicago, heard from speakers who do not foresee a steel industry or ferrous scrap price surge in the near-term future.

Mike Marley, an analyst with MetalPrices.com, Basalt, Colo., described the ferrous market as quiet, adding that fewer deals were being made domestically and in the export market in September, with most of those being for small tonnages. "There is no panic selling," Marley commented. "In September, prices were down $10, and shredded prices were down $15 or down $20 in some regions."

Marley said there appeared to be an overall bearish sense in the market, with shredded scrap continuing to show weakness. "It was almost a given that shredded would fall," said Marley, adding that bundles and busheling also fell in September.

Lead times for orders at steel mills globally were not stretching out as far as they had been, Marley added, which suggests steel sheet supply was catching up with demand. As well, some steel mill capacity was down for maintenance. This might help firm up steel prices, Marley speculated, but would reduce scrap demand. Further out, Marley said more shutdowns of steel capacity over the next few months would balance out against the mills coming back online.

With the general bearishness in the ferrous market, "No one is looking for a rebound in prime scrap [pricing]," Marley remarked. "Lots of guys sold what they had this month. They want to see just dirt by the end of the month."

Going forward, Marley predicted a "soft, sideways market. From a seller's perspective, it means zero to down a bit. For a buyer, it means that you will [ask for] a $10 cut, maybe more."

Jarek Mlodziejewski, a scrap analyst with The Steel Index, with U.S. offices in Pittsburgh, also referred to the downward trend in ferrous scrap pricing and focused on the export angle. "Markets have been [oversupplied] over the past several months," he said. While Turkey bought somewhat steadily in August, purchasers from that nation "recently dropped out of the market," Mlodziejewski said. Overall, he said exports from the U.S. to Turkey had decreased by approximately 20 percent year to date.

Mlodziejewski also told attendees that Turkey was striving to become more self-sufficient in scrap, eventually causing Turkish steel mills to reduce their intake of scrap from outside of the country.

Meanwhile, buyers from India are largely unable to place additional orders, with a key reason being the weakness in the Indian rupee. Ferrous scrap exports from the U.S. to India are down around 50 percent, Mlodziejewski pointed out. Additionally, some Indian firms were purchasing more ferrous scrap from the Middle East and Africa, he added, at prices far cheaper than from the United States.

John Harris, who has retired as one of ArcelorMittal's top scrap purchasing managers, touched on the perceived overcapacity of shredders and the move toward smaller and even portable shredders. "That will change the dynamic," predicted Harris. "The [super-sized] shredders that were only operating part time in many cases now could be a thing of the wayside, sold to China."

Competing for Less

Throughout 2013, the predominant business condition causing challenges in the ferrous sector has been a lack of scrap generation. Scrap processors point to a lack of construction and demolition activity as one factor as well as the brutal competition among shredder operators for auto bodies, appliances and loose sheet.

The struggle for feedstock to keep equipment fed is reflected in the results of publicly traded scrap companies such as Sims Metal Management, New York.

FERROUS SCRAP AT A GLACE

MAJOR END MARKETS
The majority of ferrous scrap is consumed at steel mills, followed by iron and steel foundries.

FREQUENT FLOW PATTERNS
Much North American scrap is shipped regionally to nearby mills and foundries while other tons are shipped to Turkey, South Korea, Taiwan and other overseas destinations.

SUPPLY & DEMAND FACTORS
Scrap generation is tied to industrial production, demolition activity and scale pricing. Scrap demand depends on steel output, which is tied to the auto and construction industries.

A presentation accompanying results for the firm's 2013 fiscal year, which ended June 30, 2013, reports a 20 percent decline in global sales volumes compared with fiscal year 2012.

In North America, Sims Metal Management's volume (ferrous and nonferrous combined) in its 2013 fiscal year was down by more than 1.7 million tons, or more than 15 percent, compared with the year before. The company points to a drop in brokered export tons off the Pacific Coast as one of the factors.

Sims Metal Management sounds an optimistic note in terms of the potential for scrap generation and shredder feedstock in North America to increase in the second half of 2013, citing the following factors:

- Light vehicle sales in the U.S. in 2013 are expected to increase by 6 percent compared with 2012;
- U.S. household appliance manufacturers forecast their shipments to be up 7 percent in 2013 compared with 2012; and
- Consumer confidence in the U.S. is up 13 percent compared with 2012.

In terms of its North American ferrous export tonnage, Sims Metal Management indicates conditions could be improving in the second half of the year. "East Coast export ferrous scrap markets improved through July and August, with West Coast export markets initially lagging but show[ing] increasing demand in August," the company states in its presentation for investors.

Schnitzer Steel Industries Inc., headquartered in Portland, Ore., points to sagging export demand as a reason why its sales figures will be down for the quarter that concluded at the end of August 2013.

"Export demand for recycled metals weakened versus the third quarter as reflected by lower shipped volumes and lower average sales prices," the company says, giving guidance for its fourth quarter, which ended Aug. 31.

"Ferrous [scrap] sales volumes are anticipated to be 5 to 10 percent lower than the third quarter, and average ferrous selling prices are expected to decline from 8 to 10 percent sequentially," Schnitzer Steel Industries says.

PRICING HISTORY*

September 2013	$362
March 2013	$411
September 2012	$398
March 2012	$446

*Mill buying price per ton for No. 2 shredded scrap, 0.17 or greater copper content; Source: MSA Inc. RMDAS service, http://rmdas.msa.com

One Mission Accomplished

Finding enough ferrous scrap and then processing it and selling it with a profit margin have been daily challenges for scrap processors throughout 2013.

One bit of good news for scrap recyclers is that Americans have become increasingly efficient at making sure that anything obsolete made out of metal is recycled rather than thrown out.

The Steel Recycling Institute (SRI), a business unit of the American Iron and Steel Institute (AISI), Washington, D.C., says since the formation of SRI 25 years ago more than 1 billion tons of steel have been melted by steelmakers in North America.

SRI was commissioned by the North American steel industry in 1988 to develop an infrastructure for the recycling of steel cans and to serve as a primary information and technical resource. By 1993, SRI's focus expanded beyond steel cans to promote the recycling of all steel products.

"For a quarter century, SRI has been the local face of the steel industry, providing advocacy, information and assistance in facilitating increases in the recycling of major steel products, including cans, cars, appliances and construction materials," says Gregory Crawford, SRI executive director.

SRI says in 2012 the overall recycling rate for steel in the U.S. was 88 percent, with nearly 84 million tons of steel recycled. This included the more than 1.3 million tons of tin plate steel, which were recycled at a rate of 72 percent, the highest among packaging materials, according to SRI. More than 16.3 million tons of automotive scrap were recycled at a rate of 92.5 percent in 2012.

Other rates, including appliances and construction products, are based on industry estimates of retail and scrap collections, including more than 2.7 million tons of appliance steel recycled in 2012 at an estimated 90 percent. Also, each year, based on construction and demolition industry estimates, about 98 percent of out-of-service construction plates and beams are recycled, and 70 percent of rebar and other structural steel are captured for recycling through demolition and disassembly.

The commitment to collect and recycle steel has been inherent to steelmaking for nearly as long as steel has been made in North America, says Thomas Gibson, president and CEO of AISI. "For 25 years, steel's recycling successes have been spearheaded by the SRI," he comments.

Fewer Options

Even as prices have stagnated and then slumped in the previous 18 months, ferrous scrap recyclers were initially concerned about a lack of scrap and not a decline in demand.

As 2013 has taken shape, however, the tepid demand from export brokers and some domestic steel mills has created problems on the sell side.

Figures collected by the American Iron & Steel Association (AISI), Washington, D.C., show that year-to-date steel production in the U.S. stood at 70.3 million tons through Sept. 21, 2013. That figure represents a 3.6 percent decrease compared with the 72.9 million tons produced during the same period in 2012.

The decline in U.S. steelmaking has been joined by a considerable drop in demand from some key players in the export market. According to the U.S. Geological Survey (USGS), in the first half of 2013, the U.S. shipped 9.9 million metric tons of scrap overseas, down more than 12 percent from the 11.3 million tons shipped in the first half of 2012.

Buyers in each of the four nations that were the largest international buyers of ferrous scrap from the U.S. in the first half of 2012 have purchased less scrap from the U.S. in the first half of 2013:

- Turkey purchased 580,000 fewer tons (-17.5 percent).
- Taiwan purchased 180,000 fewer tons (-10.2 percent).
- South Korea purchased 640,000 fewer tons (-37.4 percent).
- China purchased 173,000 fewer tons (-15 percent).

These declines do not mirror identical drops in steel production in these four nations. According to the World Steel Association, Brussels, steel output in both China and Taiwan has actually increased during the first eight months of 2013 compared with 2012.

Although steel production is down by 5.4 percent in Turkey and by 6.3 percent in South Korea, those figures do not match their more dramatic drops in U.S. scrap purchases.

As mentioned by Mlodziejewski at the ISRI Commodities Roundtable, scrap buyers in these nations are seeking more tonnage within their own borders or in other nations that may offer better currency exchange options.

As 2013 nears its end, it appears that, for ferrous scrap recyclers, the year will go into the books as one where the competition for available scrap was tough, prices drifted downward and eventually even the sell side of the business presented its challenges.

The author is editor of Recycling Today and can be contacted at btaylor@gie.net.

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ARA News

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State Legislatures Convene Across the Country

State legislatures in over 20 states will convene this week for the start of the 2014 legislative session. ARA along with its affiliated state chapters and grassroots network of automotive recyclers will be closely monitoring legislation that is introduced in all 50 state legislatures that could potentially impact the professional automotive recycling industry. Several pieces of legislation with implications for automotive recyclers will be car-ried over from 2013. New Jersey legislators continue to discuss Right to Repair legis-lation that passed the General Assembly in December. Ohio lawmakers will once again debate their state's salvage vehicle laws. House Bill 128 was introduced last Spring with many identical provisions to Senate Bill 273 from the 2012 legislative ses-sion. Interested Party meetings took place on a regular basis last year but did not result in any compromise on the issue. ARA is already tracking legislation that was pre-filed in several states that could impact the operation of professional automotive recycling facilities. In South Caro-lina, Senate Bill 893 was pre-filed in mid-December and seeks to regulate the sale of used tires as well as introduce a definition of an unsafe used tire. In Missouri, House Bill 1118, Senate Bill 597 and Senate Bill 594 would all make significant changes to the way scrap metal operators purchase older inoperable vehicles without a title. Other issues expected to dominate the 2014 state legislative agenda include: un-regulated/unlicensed buyers at salvage auctions, counterfeit airbags, sales tax, parts procurement and scrap metal theft. ARA members in several states are working to make improvements to their state's salvage and titling laws.

ARA Government Affairs Committee Chairman, Norman Wright, and Director of State Government Affairs and Grassroots, Jessica Thomas, will begin hosting state legislative conference calls on January 13. The calls are open to all ARA members and those active in legislative or political activity in their state are encouraged to participate. Please contact Jessica (jessica@a-r-a.org; 571-208-0428) for more in-formation.

Start Your Year Off Right - Order Bilingual Safety Posters, HazCom Handbook and/or Employee Safety Booklet Today!

Join many of your colleagues who have already purchased safety posters and handbooks and help keep your em-ployees safe and your facility free from U.S. Occupational Safety and Health Administration (OSHA) penalties. The bilin-gual safety posters highlight 6 of the many safety practices that OSHA requires of professional automotive recyclers at their facilities and the fact that you have one displayed will send the right message to an OSHA auditor. The six issues addressed include:

1. Appropriate use of fires extinguishers,
2. Specific type of approved gas cans,
3. Extension cord use and quality,
4. Access to and clearly labeled electrical panels,
5. Updated material safety data sheets (MSDS) and a written hazard commu-nication plan which includes employee training, and
6. Forklift operator training for specific classes of forklifts .

The poster was developed by the ARA Safety Committee.

The pocket-sized bilingual employee safety handbook was produced in partnership with Wells Fargo Insurance Services. It was prepared for employees and is intended to be used as a quick reference guide to assist employees act in a safe manner.

Download the order form at http://origin.library.constantcontact.com/download/get/file/1103157481133-1354/ARA_Empl_Safety_Handbook_Revised.pdf and send in your order today to make sure you are doing all you can to keep your facility and employees safe. Also, login to the ARA University today to learn about its extensive platform of safety related training of-fered to subscribers (www.arauniversity.org).

Scholarships Applications Now Available For 2014-15 Schoolyear

The ARA Scholarship Foundation Application for 2014-15 is now available. Please let your eligible staff know that a limited number of scholarships are available for children of recycler member employees. These scholar-ships may be used for post high school education. Completed applications must be postmarked by March 15, 2014 to be eligible for a scholarship in the 2014-15 school year. Click here for an application or send an email to kelly@a-r-a.org.

New Automotive Refrigerant Approved for Use by U.S. Environmental Protection Agency

The U.S. Environmental Protection Agency (EPA) recently issued a final rule that approved automotive air conditioning refrigerant HFO-1234yf to be sold to consumers so that they can recharge their vehicle air conditioning systems. Specifically, the EPA determined that states could not con-sider the refrigerant to be a volatile organic chemical (VOC) and therefore cannot limit its use for air quality reduction purposes. HFO-1234yf will likely replace a previously commonly used automotive refrigerant, HFC-134a which has a high global warming potential (GWP). HFC-134a has a GWP of 1430 whereas HFO-1234yf has a GWP of only 4. Vehicles in the European Union (EU) have been dealing with this issue since an EU Directive last January mandated that OEM's use refrigerants with a GWP of less than 150. General Mo-tors is already using HRO1234yf in the European Chevrolet Malibu and in the U.S. Cadillac XTS. Conversion of all its vehicles to HFO-1234yf will likely occur over the next 5 years. In addition, all automakers will be encouraged to use the new refrigerant as a re-sult of the federal governmental tax credits they can secure because of lower CO2 emissions from "green" refrigerants. EPA had originally issued a significant new use rule (SNUR) that would have re-quired anyone to notify EPA at least 90 days prior to the manufacture or processing of 1234yf for consumer use to recharge a motor vehicle air conditioning system based on toxicity concerns. However, concerned organizations filed suit against the agency claiming that the studies used to make the toxicity determina-tion grossly overstated human exposure levels. Following a review of the data submitted by these organizations which indicated that there was no adverse health impact on consumers from recharging their air conditioner using 1234yf, EPA decided to reverse its decision. The new rule took effect in early December 2013.

ARA has reported on a related issue in recent months noting when EPA initially ruled that hydrofluoroolefin (HFO)-1234yf is an acceptable substitute for chlorofluo-rocarbon (CFC)-12 and R-134a in motor vehicle air conditioning for new passenger cars and light duty trucks. Also, in an effort to make automotive recyclers more aware of this new substitute and how best to manage it, the ARA University also posted a Q&A session on the issue soon after EPA made its ruling in 2012.

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