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**ASIAN BUSINESS NEWS**

## As China Gobbles Scrap Imports, Global Metal Prices Set Records

By ADAM MINTER  
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At a scrapyards just outside the northeast Chinese port of Tianjin, piles of American scrap wire and electrical cable sprawl over most of the 66,000-square-meter site. Scattered among them, hundreds of workers strip insulation from copper wire by hand, steadily reducing the piles but never eliminating them.

In 2001, the yard's owners, Lane Tone Peace Material, imported 1,500 shipping containers of American scrap metal. In 2003, they imported 2,500. In 2004, they are bringing in even more -- largely to provide raw materials for Tianjin's thriving electronics industry. "There isn't enough domestic ore and scrap to fulfill the need," says Lane Tone's president, Lester Huang. "So imports fill the gap."

Scrap is hotter than ever in China. World metal prices have set records in the past two years as the country sucks in huge amounts of ore and scrap for processing to build its infrastructure, factories, apartment blocks as well as for other industrial uses. In less than a decade, China has become the world's largest scrap-metal importer. The growing demand is a shining example of how China roils global markets and how its plentiful and low-cost labor remains vital to its success.

Li Shouyin is one of hundreds of thousands of migrants working in the scrap industry in China. She takes apart electrical appliances, generators, wires and cables and sorts the metal. A mother of two from Hunan province, Ms. Li and her husband -- a supervisor of a wire-stripping crew -- have worked for nearly a decade at a Shenzhen yard operated by Tung Tai International, a California-based scrap exporter. Each month, they are each paid \$100, or about €82, plus housing and meals, a fairly standard wage for Shenzhen.

"It's hard work, but it's a better life than the village," Ms. Li says in front of a manager. "Our kids [in Hunan] go to school because of the money we make here. We would be making

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nothing at home."

In 2001, China overtook South Korea and Turkey to become the world's largest scrap-steel importer. So the U.S., as the world's largest scrap producer, is a natural partner for China, the largest importer of American scrap in almost every category.

In 2003, China took more U.S. scrap than ever before -- for instance, nearly 2.8 million tons of U.S. ferrous scrap, including steel but excluding stainless and alloy scrap, to the U.S. International Trade Commission. That amounted to 30% of U.S. ferrous scrap exports to the world. China took even larger proportions of other classes last year -- 79% of copper exports, 72% of American zinc-scrap exports and 49% of U.S. aluminum exports.

The U.S. is its biggest supplier, but China's scrap hunt extends near as well as far. In South Korea, gangs are stealing metal manhole covers. In South Korea, officials have warned that the high price of raw materials caused by China's demand could knock the fragile economy off track, so limits were clamped on exports of steel scrap and bars starting March 8. The move was temporary, though China's appetite for many metals is long term. The China Iron and Steel Association, representing most Chinese steel producers, forecasts a scrap-steel production of 15 million to 20 million tons in 2005, compared with domestic-steel production of 100 million tons. The Beijing Nonferrous Metal and Regenerated Metal Research Institute forecasts production from scrap copper doubling over three years.

"In the U.S. right now, the Chinese buyers are literally stuffing containers with as much steel as they can find," says Joseph Chen, president of Tung Tai. "Price doesn't matter, the price just keeps moving up."

Prices are usually discounted, depending on purity, from benchmark prices on the London Metal Exchange. As supplies have run short with demand from China and other markets buoyed by the world economic recovery, discounts have narrowed until some top metals sell at the equivalent of the LME price. Scrap is no longer second best.

As the cost of scrap rises, so do metal prices. In January, the LME recorded a 15-year high for nickel, used to make stainless steel. Benchmark three-month copper hit an 8½-year high. For the year starting in February 2002, the average price of No. 1 Heavy Melt, a grade of scrap steel, went from \$100 a metric ton to a record \$224 a ton in Chicago. Also internationally traded metals are usually priced in U.S. dollars, the dollar's weakness added to the price rise. Imports to China of low-grade scrap material, such as wire scrap and motors, are growing proportionally as fast as steel.

Chinese importers are optimistic about the sustainability of the country's scrap market. "The Chinese scrap business is going to continue booming over the next decade," says I. Mr. Huang. "The Beijing Olympics [in 2008] and Shanghai World Expo [in 2010] will require significant amounts of metal."

Other importers cite China's car industry, growing at a breakneck pace, as guaranteeing demand for imported scrap. "I think we're probably five to 10 years from a strong scrap market," says Mr. Chen of Tung Tai. "Until then, this is a growth business."

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