



Scrap

Bigger isn't always better in the US ferrous scrap export game

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By Michael Marley

A horde of Davids are battling a handful of Goliaths in the West Coast ferrous scrap export market. Instead of tossing stones, though, they are using containers, filling them with No. 1 heavy melt and slinging them aboard container ships headed for the Far East.

Ferrous scrap markets in China, South Korea and several other Pacific Rim nations were once a near-monopoly for the large exporters on the West Coast, but lately they have become a battleground. An armada of smaller scrapyards in the region have learned that they can load 15 or 20 tons of, say, No. 2 dealer bundles into a 40-foot container (FEU) and truck it to the dock just as easily—and in some instances more profitably—than selling to the big exporters.

Much of the ferrous scrap shipped to major steel mills in Asia still goes via bulk cargo in so-called handy-sized vessels that carry 30,000 to 35,000 tonnes of scrap. In the past, only nonferrous metals and stainless scrap were shipped via container. That has changed in the past few years.

One reason is the availability of containers, especially at the port of Los Angeles, perhaps the busiest U.S. port. The United States has a lopsided merchandise trade balance with Asia. Containers filled with toys, clothing and other goods come from manufacturing plants in the Far East to markets in this country. That has left a surplus of empty containers on U.S. docks and an incentive for Asian manufacturers to get them back so that even more goods can be delivered to local Wal-Mart and Target stores. But shipping companies prefer to carry something back in each container—otherwise it's a container that isn't paying its way.

The scrap metals industry in the region includes numerous smaller family owned yards that process a few hundred to a few thousand tons a month. Now, said a trader at one southern California exporter, even the smallest yards have discovered that they can load one or two containers and ship them overseas. "It is very definitely a problem for big exporters like us," he said.

The larger exporters would love to load scrap in containers, but it doesn't make much economic sense for them, one exporter said, because it can take an hour or two to load 20 tons of scrap into a container—and they can load that much ferrous scrap into the hold of a ship within minutes. So despite their size and strength, they can't compete with smaller yards in loading containers.

One smaller regional yard has become almost exclusively a ferrous scrap exporter in the past year. Nathan Frankel, president of Advanced Steel Recovery Inc., a ferrous scrapyard in Fontana, Calif., leaped into the export waters more than a year ago after he developed an innovative sea-container loading technology called FASTek (Frankel Advanced Shipping Technologies) that reduces loading time and gives his landlocked scrapyard access to the high seas.

Virtually all of the company's ferrous scrap, some 30 to 35 containers a month, now goes overseas, mainly to smaller steel mills in less-developed countries like Bangladesh and Vietnam that can't buy bulk cargoes of ferrous scrap, Frankel said.

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Frankel devised his system after he realized he could use the empty containers at the docks as a backhaul—much like independent truckers do throughout the United States—and ship directly to mills in the scrap-poor Far East. His FASTek system can handle various ferrous grades, from No. 1 heavy melt to plate and structural scrap, No. 1 dealer bundles and even railroad scrap.

Frankel is a third-generation scrap processor. His father, Leo, was the owner of the former Frankel Iron & Metal Co. in Fontana and Ferromet Inc. in Etiwanda, Calif. Leo Frankel sold both companies to Sims Group Ltd. in 1999, and the two yards later were sold to Pacific Coast Recycling LLC, a Los Angeles-based exporter that uses them as feeder yards for its export operations.

In addition, one West Coast exporter said, there is a small army of Chinese and Korean traders that drive from yard to yard making deals for scrap. "Their offices are their cars and their cell phones," he said. Many of these mobile traders emerged in the days when China's newly developing industries were hungry for copper and copper scrap. The traders stepped into the supply vacuum and made deals with smaller yards for containers of red metal scrap. Now they are doing much the same with ferrous scrap, another U.S. exporter said.

Another factor that has favored smaller yards has been steadily rising rates for bulk cargoes from the West Coast to Asian ports. Bulk cargo freight rates were once \$15 to \$20 a tonne but are now \$50 to \$60 a tonne.

The Westbound Transpacific Stabilization Agreement (WTSA) shipping consortium announced earlier this month that for the third consecutive year its members would raise metal scrap freight rates in containers effective Feb 15 (*AMM*, Jan. 10). The group, made up of 10 major container shipping lines that ply sea routes between the United States and Asia, will raise rates by \$100 per FEU and by \$80 per 20-foot container (TEU), while inland point or mini-land bridge intermodal cargo will go up by \$150 per FEU and \$120 per TEU.

The increases for containers are long overdue, according to some scrap shippers. But the increases add only about \$5 a tonne to a small scrapyards shipping costs whereas bulk cargo shippers have endured rate hikes of as much as \$20 a tonne.

A further complication is the competition between big exporters and larger scrap processors that operate shredders. Most have opted to make more shredded scrap, and make it more efficiently with larger heavy-duty shredders. These big machines produce a value-added product that smaller scrapyards can't make and can be readily sold overseas.

But in order for those machines to run at their optimum they need to pump out about 200 tons of product an hour. Thus, competition has become intense for scrap, particularly No. 1 heavy melt, that these big machines can shred, one Northwest exporter said. "We can't buy as much No. 1 as we used to get," he said, adding that he's uncertain whether its being sold overseas by smaller yards or shredded by bigger yards.

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