



By David Gold

R E C Y C L I N G

The price of steel

It affects us at the deepest level

World demand for steel is being driven by Chinese infrastructure development: road building, rail-ways, and the construction of steel framed buildings. This demand for steel has had a significant impact on the price of scrap. The market is very volatile with large changes in the price paid by scrap processors.

The auto recyclers dilemma is whether to hold the scrap when prices are down, hoping to see them rocket upwards later on. Auto recyclers must also analyze what their core business is and govern their procurement of end of life, salvage (parts cars) and builder salvage vehicles accordingly. These decisions will affect each auto recycler and will help determine their strengths and weaknesses.

The China factor

There is a healthy appetite for steel as developing economics flourish. In 1989 China produced 60 million metric tons of steel – 8% of the world's production. In 2004, China produced 268 million metric tons. That means China is producing one out of every four tons of steel made in the world (25 percent).

In terms of steel consumption, it's even more impressive. China imports more steel than any other country in the world.

So scrap yards are directly affected by the ongoing situation in China.

The Chinese have the power to influence the price of scrap paid by local scrap processors in that our local scrap processors try and forecast the supply and demand equation.

And even trickier is the existing shipping issue right now for exporters of scrap. There is a large backlog of scrap containers at U. S and Chinese ports. As a result there has been a softening of scrap prices at this time in the local market.

No guarantees

This past year we have seen the scrap prices hit all time highs and then fall back down to mediocre prices.

In 2004 many auto recyclers who speculated made great profits on the sale of their scrap material. Looking ahead, there is no guarantee that prices will bounce back to the same levels.

Handling autos creates an entire dimension of the business all on its own. Scrap cars come with many costs before you can get any money from the car's

scrap itself. The expenses incurred in disposing of fluids and tires and the handling of ownership issues are very complex and costly. Nonetheless, scrap processors and auto recyclers alike seek automobiles.

The dollars paid to auto recyclers for their scrap are not as lucrative as one might think. However, they do keep many auto recyclers in business. To rely on scrap prices to maintain your used OEM parts business is a recipe for disaster.

Auto recycling yards that acquire an End of Life salvage vehicle for anything more than a nominal fee are over paying. Some recyclers over pay because they are simply unaware of the costs to handle the vehicles or they don't care about their environmental and legal obligations. Others are more than willing to pay high prices for low-end salvage because of the insurance contracts they need to maintain.

Most local insurance contracts that are available require auto recyclers to over pay on approximately 50% of the vehicles written off. How do the insurance companies demand these high dollars for low-end salvage? The answer to this question has nothing to do with the relationship to the product itself and the scrap prices but rather has everything to do with the acquisition of "builder" vehicles that the auto recycler can sell.

Core business

So due to the high cost paid for the low-end salvage, auto recyclers justify these payouts by the sale of the "builder".

Many auto recyclers feel forced into getting involved with insurance contracts because of the ease of which product is acquired and because they can by-pass auctions.

Part of my message and purpose in writing for Collision Repair is to shed some light on how the progressive auto recycler contributes to all stakeholders involved in our industry. Most progressive auto recyclers do not want to fool with low-end salvage or rebuilder vehicles. These only detract from our core business: To sell and promote the use of used OEM parts. **CR**

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