

Expansion into Mexico helps propel firm's fortunes

Coastal U.S. scrap metal processors have long been far better positioned to capitalize on export markets than their inland competitors. For one thing, bulk shipping is considerably cheaper than the containerized transport needed to move material from the heartland. But that did not hold back largely landlocked Burnham, Ill.-based Scrap Metal Services LLC (SMS) from punching a new export avenue through the southern U.S. to Mexico and beyond.

Two key investments in Texas last year more than doubled the share of SMS' total ferrous scrap now bound for export to between 20 and 30 percent of the firm's total volume—and up from nearly zero just 18 months ago—a feat that factored into SMS' selection as AMM's first Ferrous Scrap Exporter of the Year.

SMS' first move was its March 2012 establishment of a greenfield scrap processing facility in Baytown, Texas—an epicenter of the global energy and petrochemical industries, 30 miles east of Houston—on the premises of JSW Steel USA Inc., which also ceded its on-site scrap generation to SMS. In a bolder move, five months later SMS acquired All Star Metals LLC, a licensed shipbreaker, and All Star Shredding LLC, its affiliated shredding facility, in Brownsville, smack up against the border cities of Matamoros and Reynosa, joining SMS' commercial facilities and mill services operations in Alabama, Illinois, Indiana, Ohio, Pennsylvania and Texas.

Through the two Texas operations, SMS now exports about 15,000 tonnes per month, nearly 15 percent of the parent company's total commercial business (which is itself roughly a third of the 300,000 tonnes SMS handles monthly; the balance is handled in mill services).

Through Baytown, SMS ships 5 to 10 percent of its monthly volume to India. All Star, which has always been focused on the Mexican market, typically exports about 75 percent of its volume to Mexican rebar and wire producers and a small percent to local foundries.

The foray into the Mexican market was particularly auspicious. Several Mexican steel mills—most are electric-arc furnaces—have either opened or expanded since the All Star purchase, and overall the Mexican steel industry is growing at roughly 5 percent per year compared with a more-anemic 1 percent in the United States, according to SMS chief executive officer Jeff Gertler, who founded the company with his brother,

Richard, in 2005. “There is a lot of scrap demand in Mexico. In order for them to purchase ferrous scrap units they require to produce their melts month in and month out, they have to reach into the U.S. market, because there is not enough obsolete scrap domestically, so it creates value to our scrap generated in Brownsville,” he said.

Most of the new mills have been built in Mexico's more industrialized northern region, well within SMS' shipping district, which extends roughly to Mexico City and its metro area population of some 20 million. Most scrap is moved by truck, but some is shipped by rail.

“We tend to stick with the mills we've had successful relationships with but we are also open to new consumers if it makes geographical sense. If there is a need to get closer to our suppliers, this in turn may open new consumers to

our supply base,” Gertler said.

The Texas expansion positions the company to deepen existing procurement relationships with American companies that have a presence in Mexico, especially original equipment manufacturers in auto taking advantage of the border free-trade zone program, known locally as the maquiladora program. There is also a continuing influx of American businesses setting up shop in Texas' Rio Grande Valley.

“We knew there was a lot of demand and we knew there has been a lot of American companies moving there, (but) we didn't understand the level of it until we started doing our due diligence on All Star Metals

and our due diligence on the Mexican market,” Gertler said. “It is a very intriguing place for us, where we think there will be a lot of growth in the next five years.”

Jeff and Richard Gertler began their careers at Industrial Scrap Corp. (ISC)—founded by their father, Herbert, in 1970—which was sold to OmniSource Corp. in 1999. Jeff and Richard, who serves as SMS' chief operating officer, were principals in ISC from 1980 to 1999 and stayed on for five-plus years after the sale to OmniSource, which in 2007 was in turn acquired by Steel Dynamics Inc.

The founder of All Star Metals, Nikhil Shah, who has 20 years' experience in remediation of asbestos, lead, polychlorinated biphenyls and other hazardous materials in shipbreaking, started the company with his wife, Lopa Shah, who still works as the environmental, safety and health director.

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