Forger makes money with its trash

Left is Stephen Schneider, Chief Executive Officer with Mike Müller, Chief Operating Officer of UFT.

Aluminium is a resource, even as scrap, Stephan Schneider keeps telling his 150 employees. For the Umformtechnik Radebeul (UFT) Chief Executive Officer, it is clear that we are talking about several hundred thousand euros. At the specialised forging company, about a third of the material becomes waste following the production process, making up some 600 tonnes each year.

When Stephan Schneider took over Umformtechnik (UFT) Radebeul as Chief Executive Officer in 2005, the 37 employees generated 80 per cent of the six million euro turnover with just a single customer from the automobile industry. The 56 year old engineer and Chief Operations Officer (COO) Mike Müller developed a strategy to get the company on a sound financial basis through diversification, specialised products, and a higher vertical range of manufacture. Eight years later, the automobile industry makes up for half of the 15 million euro turnover - and that with various manufacturers and suppliers.

Another focus is the electronics industry, but companies from the medicine and sports business also have components produced on the forging presses in Radebeul. At the same time, the company has specialised in thin-walled and complicated parts. UFT Radebeul assembles entire groups of components, refines surfaces, and has its tools manufactured by neighbouring company Aluminiumtechnik Radebeul.

Recycling

UFT treats the production leftovers or scraps or waste very carefully, no matter how insignificant. Whenever the alloy of the material machined is changed, the presses as well as the post-processing machines are cleaned to collect even the tiniest chips. Then a new chip pail is put next to the presses and machines. COO Mike Müller estimates that about ninety per cent of the production accounts for such standard material, while the other ten per cent are alloys containing copper or zinc. Separating three different kinds of material is relatively easy.

The logistical problem is much more complex. Hypothetically, UFT's two aluminium providers from Slovenia and Switzerland could drive the new aluminium rods to Saxony, and take the waste back home again. However, rods and scrap are being transported in different containers. "We are currently looking for a more efficient solution", Schneider says. While large companies with extremely high quantities don't find this issue problematic, midsize enterprises such as UFT with their smaller production numbers find this issue or dilemma rather challenging.

Likewise, UFT is doing all that it can to be economically sensible. For instance, metal chips are already pressed to briquettes in Radebeul: on the one hand, cooling fluid can be recovered and on the other, the aluminium can be recycled easier. The advantage is that they get a higher price. UFT gets even more, as the aluminium waste is delivered homogeneously. In times of falling raw material prices, that is an important factor, as aluminium scrap has gone down to rock bottom prices. Even though this results in savings of only five euro cents per kilo, the results add up to well over 500,000 euros at the end of the year.

Aluminium can be recycled several times, and UFT purchases its raw material from the same company that buys its waste. Thus, Schneider can be certain to get his raw material back in high quality. Others have different experiences. Schneider has heard other companies that have received Cola cans as waste, filled with heavy pieces of lead, to realise a higher price. A fatal disaster, as lead changes the structure of aluminium. A third of the raw material aluminium ends up as scrap after production. UFT Radebeul, however, saves a lot of money by carefully separating waste, and turning it into briquettes.

Reader Reply No.47

New rules signal warehouse probe

The recent decision by London Metal Exchange (LME) to change its rules in warehousing operations plus accusations relating to Goldman Sachs for deliberately prolonging delivery time of the metal out of its warehouses, and the rising cost of warehoused aluminium, has been major news on the aluminium market, putting other problems such as Chinese growth or US and EU monetary policies in the shade.

The impact on the aluminium market from stricter LME rules could be substantial, especially in reducing aluminium premiums.

The move that came some six months after LME was acquired by Hong Kong Exchanges & Clearing for GBP 1.4 billion, was to reduce long queues to remove metal from large warehouses in the LME's global network. There had been a number of complaints in previous months from industrial clients that they were paying excessive premiums for prompt delivery of metal, while waiting over a year to take it off the LME warehouses. Producers such as Alcoa and UC Rusal have also expressed discontent with the apparent lack of transparency of LME's warehousing deals.

As a result, the LME and Goldman Sachs are being sued in a U.S. court over alleged anti-competitive and monopolistic behaviour in aluminium storage. The lawsuit was filed on 1 August 2012 by Superior Extrusion Inc., a producer of aluminium tubing and beams, in the U.S. District Court for the Eastern District of Michigan. The beer producer MillerCoors also testified that the banks' control of metal warehouses has increased their costs by as much as US$ 3 bn (GBP 1.95 bn) over the last year. Allegedly, Goldman Sachs was moving aluminium stocks from one warehouse position to another instead of delivering it all to customers.

Goldman Sachs issued a statement denying this. The bank pointed out that "the overall delivered price of aluminium is down nearly 40 per cent since its 2008 peak levels", suggesting that the accusation for influencing the aluminium price rise were groundless.

The Commodity Futures Trading Commission has sent 'do not destroy' letters ordering warehouse owners to retain documents related to their operations of recent days, in a sign of a looming regulatory probe of their storage practices.

Ownership of the LME warehouse network is concentrated among a handful of companies, including Glencore Xstrata Plc and Trafigura, the commodities trading house, Goldman Sachs, JP Morgan Chase and Dutch private logistics company C Steinweg. In past years, these companies have accumulated large quantities of stocks of industrial metals at their LME registered warehouses. Aluminium stocks at LME warehouses have risen more than five times since beginning of the economic crisis in 2008, reaching 5.47 million tonnes. Of that total, Glencore Xstrata's Dutch warehouses at Vlissingen store around 2 million tonnes. A further 1.5 million tonnes is housed at Goldman Sachs's storage business in Detroit.

Despite enormous growth of stocks, the quantity of metal that warehouses must deliver out each day is limited by LME rules. This has created bottlenecks that cause delivery

LME warehouses

To support the mechanism of physical delivery, the LME approves and licenses a network of warehouses and storage facilities around the world. Warehouse companies must meet strict criteria before they are approved for the handling of metals. Warrant holders are responsible for the payment of charges for storage of material in LME-approved storage facilities. LME warrants are widely recognised by the international banking community as financeable documents, so they may be used by producers, consumers and merchants to raise finance for stocks held at LME warehouse facilities.

Nearly 700 storage facilities across 36 locations have been approved for goods delivery of LME contracts. The LME market does not replace the normal channels for buying and selling material. Instead it can be used as a physical market of 'last resort', where producers and consumers can buy or sell metal in times of extreme shortage or over supply. (Source: LME, Henry Bath)