

SCRAP SURCHARGE

What, Why & How???

Steel scrap is the primary raw material used in the manufacture of cast steel shot & grit. History has proven the scrap market to have volatile swings from one month to the next. Obviously maintaining firm prices in a volatile scrap market proved to be impossible. In the early 1970's, a pricing structure for steel shot & grit was developed which allowed a surcharge to be applied to compensate for the ups and downs of the scrap market. The *Scrap Price Bulletin* was chosen as the determining factor in the scrap surcharge because it canvasses scrap dealers and buyers weekly and publishes the figures. The Pittsburgh market was selected because it was the most active in volume of trades and the most stable in pricing. "Punchings and Plate" is the most frequently used scrap and a base cost of \$90 per ton for scrap was established.

Over the years, this pricing structure has become the norm and is accepted by all steel shot & grit users. It has been pointed out that the surcharge exists as much for the protection of the buyer as for the manufacturer. Without the surcharge, increases in the cost of scrap would be quickly passed along to the buyers but reduction in scrap prices would not be shared as quickly, much as is the case today in gasoline prices.

Monthly Calculation: When the published price for "Punchings and Plate" is \$90 per ton, the scrap surcharge will be \$0". As the published price for scrap goes up or down, the surcharge is applied to reflect the difference between the published price and the base cost of \$90. The current month's scrap surcharge is determined from the second publication of the previous month. The surcharge is applied at the time of shipment and not at the time of order.

Example:

Published Price for "Punchings & Plate" in the Pittsburgh Market is	\$690
Steel Shot Manufacturer absorbs	<u>\$ 90</u>
Scrap Surcharge to Customer (\$690 - \$90)	\$600