

GAO

Report to the Chairman, Subcommittee
on Military Readiness, Committee on
National Security, House of
Representatives

November 1996

NATIONAL DEFENSE STOCKPILE

Disposal of Excess Zinc





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-270963

November 7, 1996

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military
Readiness
Committee on National Security
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review issues surrounding a dispute between the American Zinc Association¹ (AZA) and the federal government about the Department of Defense's (DOD) sale of excess zinc from the National Defense Stockpile. AZA believes that the amount of zinc DOD plans to sell annually is too high and will cause undue disruption of the usual markets for zinc. This report assesses (1) the government's basis for its interpretation of the statutory phrase "usual markets" as applied to the zinc sales program and (2) DOD's efforts to not unduly disrupt the zinc market.

Background

The National Defense Stockpile is a reserve of strategic and critical materials that may be unavailable in the United States in sufficient quantities to meet unanticipated national security requirements. The Defense Logistics Agency's Defense National Stockpile Center (DNSC) has managed the stockpile since 1988. Zinc is one of 92 strategic and critical materials stored in the stockpile. It is commonly used for galvanizing, die-casting, manufacturing brass and bronze, and making the U.S. penny. It is produced in various grades—special high grade, high grade, continuous galvanizing, controlled lead, and prime western—that are distinguishable by the amount of impurities they contain, such as lead, cadmium, and iron. Special high grade is the most pure, prime western the least. As of March 30, 1996, DNSC has nearly 300,000 tons² of slab zinc, valued at \$300 million, stored at 15 facilities in 9 states. (See app. I.) About 91 percent is either high grade (48 percent) or prime western grade (43 percent).

The Strategic and Critical Materials Stock Piling Act, 50 U.S.C. 98 et seq., as amended, prohibits the sale of any stockpile material unless the

¹AZA's membership consists of 18 domestic and foreign firms that produce zinc concentrate, metal, oxide, and dust for U.S. consumption.

²As used in this report, "tons" are short tons of 2,000 pounds each.

disposal, and the quantity of the material to be disposed of, is authorized by law. The act also states that

“to the maximum extent feasible . . . efforts shall be made . . . to avoid undue disruption of the usual markets of producers, processors, and consumers of such materials and to protect the United States against avoidable loss.” [Emphasis added.]

DNSC has been authorized to sell up to 50,000 tons of zinc in fiscal year 1996 and 50,000 tons in fiscal year 1997. It is conducting monthly sales using sealed bidding procedures. Bids for a minimum of 20 tons are accepted from producers, processors, traders, and consumers on an “as-is, where-is” basis.³ Between 1993 and March 1996, DNSC sold approximately 77,000 tons⁴ of zinc for about \$60 million. DNSC’s plans, as provided to the Congress, indicate that, if authorized, it intends to sell up to 50,000 tons annually until the inventory is depleted. Money generated from sales is put into the National Defense Stockpile Transaction Fund and used for stockpile operations or, as authorized and appropriated by the Congress, for other defense purposes.

Results in Brief

The statute that governs sales from the stockpile does not define the usual markets for stockpile materials. Accordingly, executive branch officials have discretion in identifying the relevant market for particular sales. DNSC and the Market Impact Committee,⁵ the intergovernmental group that is statutorily required to advise DNSC on the U.S. and foreign effects of sales from the stockpile, have concluded that for stockpile sales of zinc, the usual market is the total U.S. market for all grades of zinc, not just the grades being sold from the stockpile. AZA considers the usual market to be the U.S. market for only the particular grades being sold from the stockpile. We believe the government’s determination has a sound basis. It is based on practices that exist in the zinc industry, and it is consistent with the views of zinc market participants with whom we discussed this matter.

DNSC has policies and procedures for selling zinc without unduly disrupting the zinc market. Specifically, it has publicized its policy on timing of sales,

³The term “as is, where is” means DNSC does not guarantee the quality of the zinc and the buyer is responsible for transportation from the storage site.

⁴During this period, DNSC sold 64,235 tons to the commercial sector and 12,735 tons to the U.S. Mint.

⁵The Market Impact Committee is made up of representatives of the Departments of Agriculture, Commerce, Defense, Energy, the Interior, State, and the Treasury; the Federal Emergency Management Agency; and such other persons as the President considers appropriate. The representatives from the Departments of Commerce and State are the cochairs.

amounts to be sold, and relation of sales prices to market prices; provided plans to the appropriate congressional committees for approval; sold less zinc than it was authorized to sell; and given increased emphasis to selling at prices close to commercial market prices.

The government recognizes that stockpile sales can affect some sellers more than others, despite its attempts to minimize disruption. The sales may, for example, have a greater impact on the sellers of the grades being sold from the stockpile, and a seller of one grade could be more affected than a seller of several grades. The increase in zinc supplies can lower prices and cause particular producers or processors to lose business. However, the Market Impact Committee contends that this is normal commercial activity, not an undue disruption. DNSC plans to continue to closely monitor prices when accepting bids to ensure that the market is not unduly disrupted.

Government's View of Usual Market for Zinc Has a Sound Basis

When evaluating the potential for undue market disruption, DNSC and the Market Impact Committee consider the usual market for zinc to be the total U.S. market for all grades of the commodity. AZA contends, however, that the statute requires an evaluation based only on the markets for the grades of zinc the stockpile plans to sell. We find that the statute does not specify the market the government is to examine and that the government's determination to consider the entire zinc market has a sound basis.

Statute Does Not Specify the Market the Government Is to Examine

The Stock Piling Act authorizes the acquisition, management, and disposal of "strategic and critical materials" and requires efforts by the stockpile managers, to the maximum extent feasible, "to avoid undue disruption of the usual markets of producers, processors, and consumers of such materials." AZA argues that the phrase "such materials" refers only to the specific grades of zinc being disposed of from the stockpile and that the phrase "usual markets" refers only to producers, processors, and consumers of those specific grades. The government, on the other hand, believes that "material" refers to the commodity of zinc, regardless of grades; therefore, the usual markets to which the statute refers means the total market for the commodity, not just the markets for the specific grades being sold from the stockpile.

Although it is clear from the Stock Piling Act that the phrase such materials refers to the strategic and critical materials disposed of under

the act, the statute does not require a market analysis based on specific grades of stockpile commodities. In addition, while the act requires efforts to avoid undue disruption of the usual markets for materials sold from the stockpile, it does not define the phrase usual markets or otherwise specify what markets the government is to examine to determine whether stockpile sales could be unduly disruptive. Furthermore, while it is clear from the act's legislative history that the Congress was concerned with the market effects of stockpile sales, there is no indication that the Congress envisioned an evaluation at any particular market level. Generally, without a statutory definition or clear indication of congressional intent, an agency charged with implementing a statute has the discretion to define a phrase such as usual markets. The courts have said that an agency's determination in such circumstances will not be overturned, provided it has a reasonable basis.⁶

Government's Position Has a Sound Basis

We believe the determination by DNSC and the Market Impact Committee concerning the usual markets for zinc has a sound basis. According to DNSC officials, their determinations are based on the practices for each industry and commodity. Some commodities consist of grades that have separate industry uses and generally cannot be substituted for one another, according to DNSC. For example, the mineral fluorspar,⁷ another stockpile material being disposed of, is divided into grades having distinct end uses—a metallurgical grade used in the manufacture of certain metals and an acid grade used by the glass industry. In contrast, in some cases, different grades of zinc may be used for the same purpose, such as certain types of galvanizing. Annual legislation authorizing sales from the stockpile reflect these differences between commodities. Disposals of certain commodities, such as zinc and lead, are authorized on a generic basis; authorization for disposing of other commodities, such as fluorspar, is given by separate grades and amounts.⁸

DNSC and the Market Impact Committee's view of the zinc market as an entire market is a long-standing one shared by previous managers of the stockpile. Specifically, the General Services Administration and the Federal Emergency Management Agency, both prior managers of the stockpile, have defined the usual market for zinc as the entire market.

⁶See *Associated Metals and Minerals Corp. v. Carmen*, 704 F.2d 629 (1983).

⁷Fluorspar is the commercial name of the mineral fluorite. It is necessary in most steel and aluminum production processes and is used in making glass and enamel.

⁸See, for example, sections 3301 to 3303 of Public Law 102-484, as amended, 50 U.S.C. 98d note.

Our discussions with zinc market participants—that is, companies producing or processing zinc, those buying and selling zinc as traders or brokers, those that consume zinc in their manufacturing processes, and individuals who study or report on the zinc markets—support this view of the larger market. Some of these discussions were with AZA members. The consensus was that some zinc consumers adjust their purchases of different grades of zinc according to changing market factors. Some producers adjust their production of different grades according to supply and demand for each grade. According to the participants, the impact of market events, such as an increased supply because of stockpile sales, could affect not only the market of the particular grade sold, but also the overall market because a significant decline in the price of one grade would be expected to depress the prices of other grades. Pricing data we reviewed show that prices of different grades tend to follow similar patterns.

Although some zinc consumers may not purchase materials sold from the stockpile, we do not believe that the Stock Piling Act requires the government to limit its review of the usual markets to only those consumers likely to buy zinc from the stockpile. According to DNSC, a company may not buy stockpile zinc for a number of reasons. For example, even if a company could use the grade of zinc being sold, the material may not be available in sufficient quantity or quality, or at low enough prices, to justify changing suppliers. Even though such a company may not buy zinc from the stockpile, that company could be affected by the increase in supply resulting from stockpile sales.

The government recognizes that sales from the stockpile can affect some participants in the market more than others. Stockpile sales increase supplies that can drive down prices and cause a particular producer or processor to lose business. The stockpile is in effect an additional zinc producer. One major U.S. zinc producer, for example, produces only one grade of zinc, which is one of those DNSC has offered for sale. This producer stated that it had lost sales because of the stockpile sales. However, the Market Impact Committee stated that the loss of business by one producer, in and of itself, does not necessarily unduly disrupt the overall market. Some customers taking advantage of lower prices from a new supplier is a normal commercial activity.

One factor that may limit the impact of stockpile sales on U.S. zinc producers is the international character of the zinc market. Zinc is an internationally traded commodity. In 1994, the latest year for which data

were available, U.S. zinc consumption (all grades) was about 17 percent of the world's consumption, and the United States had to rely on imports for about 67 percent of the 1.2 million tons of slab zinc consumed. According to zinc market participants and analysts, although prices and market conditions for zinc can differ by country, international trade tends to spread the effects of changing market conditions across countries. For example, if U.S. prices fell, then suppliers would decrease their sales to the U.S. market and increase their sales to other markets, thus distributing the price effects to those other markets.

DNSC Has Policies and Procedures to Avoid Unduly Disrupting the Zinc Markets

DNSC has established policies and procedures to avoid unduly disrupting the zinc markets. Specifically, it has publicized its sales and price policy and solicited public comments; sold less zinc than it was authorized to sell; and tried to sell zinc close to market prices.

DNSC's Policy Is Publicized

DNSC's policy for disposing of zinc is to (1) dispose of those quantities of materials as authorized by the Congress; (2) maximize revenues, though not necessarily maximize sales; and (3) be responsive to industry and congressional concerns. In addition, a policy statement was published in the October 17, 1994, Federal Register.⁹

DNSC also works closely with the Market Impact Committee. The Committee reviews a range of data and analysis compiled by DNSC and other agencies, and it may also review DNSC's proposed sales methods. It is the Committee's policy to solicit industry views concerning the proposed disposals. The Committee is particularly interested in any information that would indicate a potential market disruption if DNSC sold any zinc. Based on this evidence, the Committee can recommend reductions in the proposed commodity disposal levels. If DNSC refuses to accept the Committee's recommendations, it must provide written justification with its submission of the annual materials plan to the Congress. According to the Committee, a steady, well-publicized disposal program helps increase market certainty, whereas irregular sales contributes to market uncertainty.

⁹59 Fed. Reg. 52,284 (1994).

DNSC Has Sold Less Than It Was Authorized

DNSC must submit an annual materials plan to the Congress to show the quantity of materials to be disposed of, the views of the Market Impact Committee on the projected domestic and foreign economic effects of such disposals, the recommendations submitted by the Committee relative to the disposals, and justification for the disposal. Table 1 provides a summary of the amounts requested and approved.

Table 1: Zinc Disposal Amounts Requested and Approved

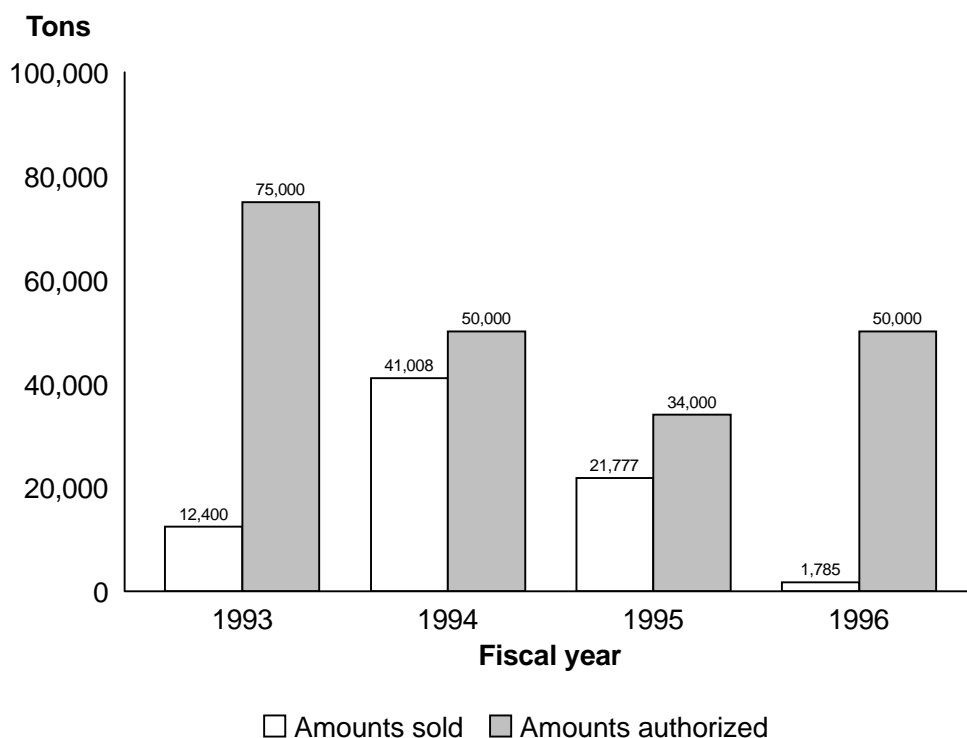
| Tons in thousands | | | | |
|--|-------------|------|------|------|
| | Fiscal year | | | |
| | 1993 | 1994 | 1995 | 1996 |
| As originally proposed to the Congress | 50 | 50 | 75 | 50 |
| As subsequently revised by DNSC and submitted to the Congress for the next annual materials plan cycle | 75 | 50 | 34 | 50 |
| As approved by the Congress | 75 | 50 | 34 | 50 |

Source: DNSC.

The most recent plan, submitted on February 15, 1996, requested authority to dispose of up to 50,000 tons for fiscal year 1997. The plan also included DNSC's proposal to sell up to 50,000 tons annually until the inventory is depleted.

DNSC has sold less zinc than it was authorized over the last several years. Between March 1993, when DNSC began selling zinc, and March 1996, DNSC has sold approximately 77,000 tons, although it was authorized to sell 209,000 tons. Figure 1 provides a yearly comparison of the amounts sold and amounts authorized.

Figure 1: Comparison of Amounts of Zinc Sold with Amounts Authorized (fiscal year 1993 through March 1996)



Note: Preliminary data provided by DNSC shows that the total amount sold in fiscal year 1996 was about 15,000 tons.

Source: DNSC.

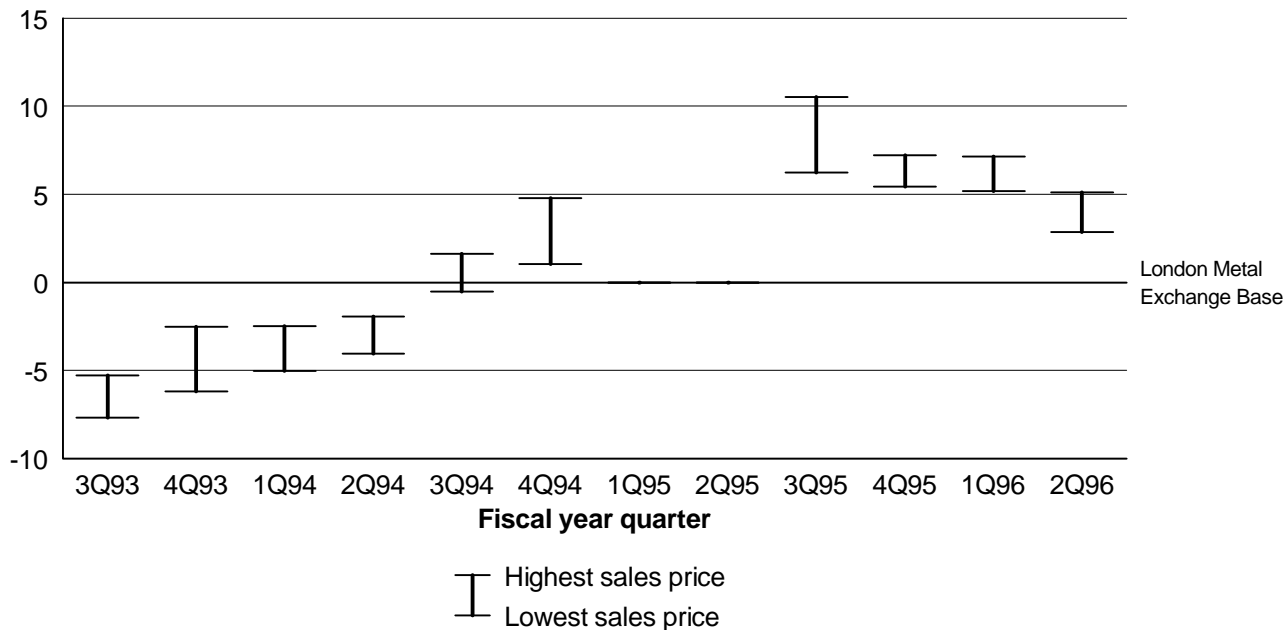
DNSC Has Shown Concern for Selling Closer to Market Prices

Industry members and metals analysts told us that the stockpile's sales prices are as important as quantity when it comes to market disruption. AZA officials stated that DNSC was selling stockpile zinc at fire-sale prices, well below the London Metal Exchange¹⁰ and other market prices. Even though DNSC's policy is that all excess materials will be sold as close to market prices as possible, its sales of zinc in 1993 and part of 1994 were at prices below the London Metal Exchange. Both the Market Impact

¹⁰The London Metal Exchange is the major open zinc trading market and sets the official daily reference price for the top grade (special high grade) of zinc. The official daily price is used by buyers and sellers as a reference point for all grades of zinc for the next 24 hours.

Committee and AZA urged DNSC to raise its minimum price level, which it did, beginning in late 1994. Since 1994, the prices DNSC has accepted for zinc have been above the London Metal Exchange's prices.

The London Metal Exchange sets the world price for special high grade zinc daily. Producers add an additional charge, referred to as a premium, to the Exchange price to set their selling prices. A premium can vary by producer, sales contract, and customer, and covers such things as transportation, quality guarantees, and financing terms. As figure 2 shows, through the second quarter of fiscal year 1994, the stockpile made all sales at prices below the London Metal Exchange prices. From the fourth quarter of fiscal year 1994 to the present, all sales prices have been above the London Metal Exchange price.

Figure 2: Ranges of Prices Accepted in Relation to the London Metal Exchange**Percent Above or Below the London Metal Exchange**

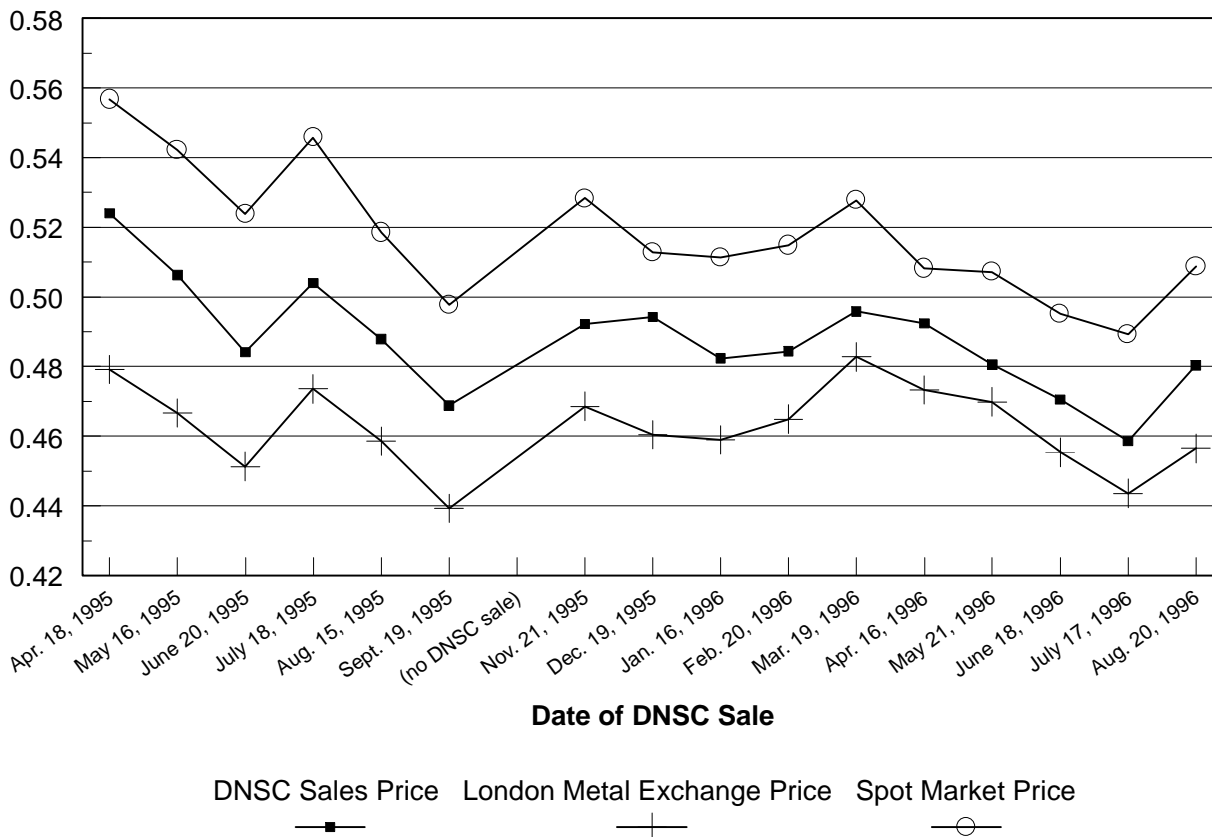
Note: No sales were authorized in the first two quarters of fiscal year 1995.

Source: DNSC.

The relation of DNSC's sales prices to the London Metal Exchange prices is only one measure of how closely DNSC is selling to market prices. Figure 3 compares the DNSC sales prices to both the London Metal Exchange and spot market prices from April 1995 to August 1996. The data shows that the prices for high grade and prime western grades sold by DNSC and those for spot sales in the commercial market are roughly 2 to 3 cents apart, a difference which DNSC and the Market Impact Committee believe is reasonable given that the government does not provide transportation, financing, or certification of product quality. DNSC's terms require buyers to pay for transportation, pay for the product prior to delivery, and accept the product on an "as is" (quality not certified) basis. Commercial terms

typically require the seller or producer to pay for transportation, provide for financing (often 30 to 40 days), and certify the quality of the product.

The DNSC data in figure 3 represent the average sales prices for high grade and prime western zinc sold at the regular DNSC sales on the third Tuesday of every month. The spot market prices are the commercial prices, averaged, for high grade and prime western zinc, as reported by the American Metal Market for the date of each DNSC sale. The London Metal Exchange data are the prices set by the London Metal Exchange for special high grade zinc on the same day as the DNSC sales. Although the London Metal Exchange price is based on special high grade, the premium for other grades is typically marked against the special high grade price.

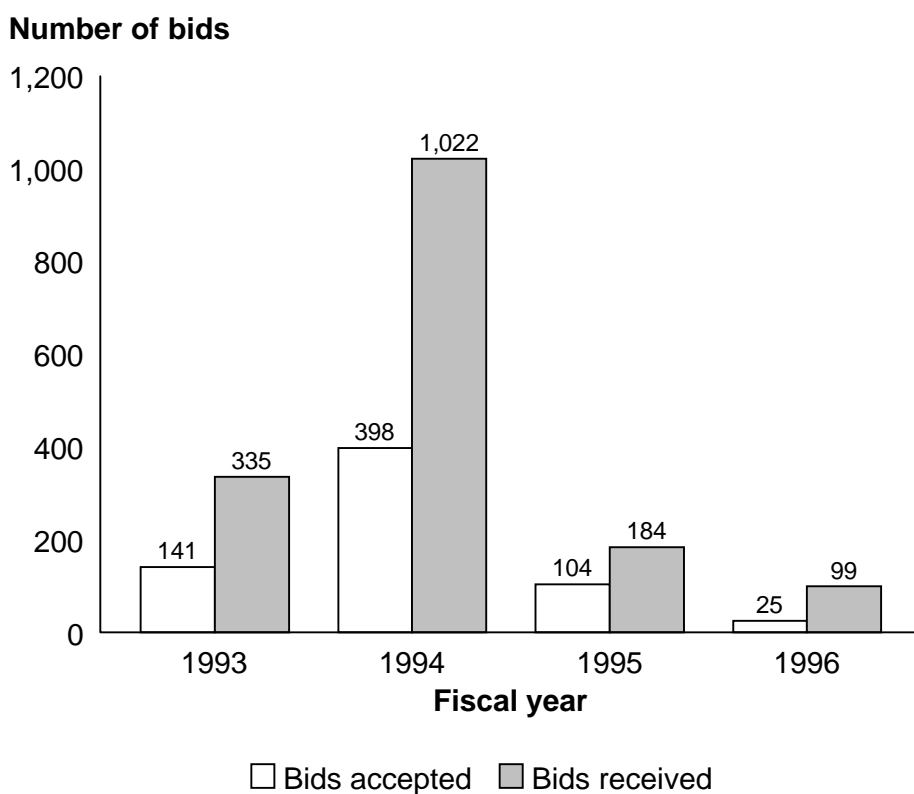
Figure 3: Comparison of DNSC Monthly Zinc Sales Prices With London Metal Exchange and Commercial Market Prices**Price in dollars per pound**

Source: DNSC and metals trade publications.

DNSC receives bids within a wide range of prices, both above and below the London Metal Exchange. Sometimes, it receives multiple bids from a single bidder at prices above, at, and below the London Metal Exchange. DNSC must decide which ones to accept and which ones to reject. DNSC has rejected more bids than it has accepted in every year it has offered zinc for

sale. (See fig. 4.) In fiscal year 1996, for example, it accepted only one of every four bids received. (App. III lists DNSC's sales activities, including the bids accepted and bids rejected.)

Figure 4: Comparison of Bids Accepted and Rejected (fiscal year 1993 through March 1996)



Source: DNSC.

DNSC plans to continue to closely monitor prices when accepting bids to ensure that the market is not unduly disrupted. DNSC's actions, we believe, demonstrate that it is paying attention to the market and is committed to

avoiding an undue disruption. It is important that DNSC accept prices for its zinc that are as close to market prices as possible.

Agency Comments and Our Evaluation

We asked DOD, the Market Impact Committee, AZA, U.S.-based AZA members, and a number of other companies and organizations with whom we discussed this matter to comment on a draft of this report. DOD and the Market Impact Committee fully concurred with the report. Their comments are included as appendix IV.

AZA disagreed with the report's conclusions, stating that we reached those conclusions based on our accepting certain inaccurate government data, avoiding certain AZA facts, and introducing irrelevant material. First, while AZA agreed that the phrase "usual markets" is not defined in the act, it said that we did not properly consider congressional intent in reviewing the government's interpretation of the phrase "usual markets." It stated that because the legislative history indicates that the Congress was particularly concerned about the effect on the markets that stockpile sales might have, those charged with construing the phrase must choose the construction that results in the minimum amount of market impact.

It is our view, however, that the legislative history does not require such an interpretation of the statute. In this regard, the legislative history, including the Senate report cited by AZA (S. Rpt. No. 804, 79th Cong., 1st Sess. 1945) shows that while the Congress was concerned about market impact, the concern was that "sudden disposals" of stockpile materials "might break the market," not that all market disruption must be avoided. Some additional language was included in the body of the report to clarify our position.

Next, AZA stated that certain materials we cited in the report were not relevant as justification for the government's action to avoid unduly disrupting the usual zinc market. We believe the materials are relevant, but have added a figure and text comparing DNSC sales prices to spot market prices to clarify our position.

Finally, AZA stated that we had not reported certain facts it believed were relevant to the dispute between the government and itself about the size of what AZA views as the usual market for high grade and prime western zinc. We have provided additional information for clarification in appendix II. The complete response of AZA and our specific comments to the points raised are included as appendix V.

Of the AZA members commenting on our draft report, one fully agreed with our conclusions and another generally agreed but believed certain statements relating to uses of different grades of zinc and market factors were misleading. We have clarified the discussion on this in the final report to address these concerns. A third member said it was disappointed with our interpretation that the government's view of the usual market has a sound basis. The members' comments are included as appendix VI.

Four other respondents—an association of zinc consumers, a zinc broker, a zinc trader, and a metals trade publication official—concurred with our findings and conclusions. Their comments are included in appendix VII.

Scope and Methodology

The focus of our work was on the dispute between the government and AZA as it related to the government's interpretation of the statutory phrase "usual markets" as applied to the zinc sales program, and DOD's efforts to not unduly disrupt the zinc market. To assess the merits of each side's position on the government's interpretation and its efforts not to disrupt the zinc market, we met with the Executive Director of AZA and reviewed data AZA provided us. We met with the Administrator, Deputy Administrator, General Counsel, and zinc commodity specialists at DNSC and reviewed the data they provided us. We also met with the cochairs of the Market Impact Committee and each of the Committee members and reviewed the minutes of each meeting where zinc disposals were considered during the last 3 years. And, we met with industry and metals analysts for the Department of Commerce and the Bureau of Mines (now part of the U.S. Geological Survey) to determine how they calculated the size of the zinc markets.

We reviewed the applicable statute, its legislative history, and relevant court cases. We discussed the statute and its interpretation with DNSC's counsel and with the executive director of AZA.

To complement our discussions with AZA and to obtain the views on the government's interpretation of usual markets and its efforts not to disrupt the markets, we met with each of the various groups represented in the zinc market—that is, companies producing or processing zinc, those buying and selling zinc as traders or brokers, those that consume zinc in their manufacturing processes, and individuals who study or report on the zinc markets—we reviewed various documents these companies and organizations had submitted to DNSC or the Market Impact Committee and contacted them about the government/AZA dispute and/or their particular

operations. We also asked each company or organization whose correspondence we reviewed or we contacted to comment on a draft of this report. We have included copies of the responses in the appendixes. The list of companies and organizations we contacted or whose documents we reviewed were the following:

- producers or processors
 - Big River Zinc Corp., Sauget, Illinois
 - Huron Valley Steel, Belleville, Michigan
 - Savage Zinc, Inc., Clarksville, Tennessee
 - Zinc Corporation of America, Monaca, Pennsylvania
- brokers or traders
 - Parks-Pioneer Metals Co., Milwaukee, Wisconsin
 - Trademet, Inc., Scarsdale, New York
- zinc consumers or their associations
 - American Galvanizers Association, Aurora, Colorado
 - Frontier Hot-Dip Galvanizing, Inc., Buffalo, New York
 - Galvan Industries, Inc., Harrisburg, North Carolina
 - Independent Zinc Alloyers Association, Washington, D.C.
 - Rogers Galvanizing Company, Tulsa, Oklahoma
 - Tennessee Galvanizing, Jasper, Tennessee
 - U.S. Zinc, Houston, Texas
- metals analysts and others
 - CRU International Ltd., London, United Kingdom
 - International Lead/Zinc Study Group, London, United Kingdom
 - Ryan's Notes, Pelham, New York

We visited the DNSC storage site at Letterkenny Army Depot, near Chambersburg, Pennsylvania, to examine how DNSC stores zinc and prepares it for sale. We did not assess DNSC's sales methods—that is, its selling on the “spot” market, as opposed to selling under long-term contracts—or the impact of congressionally imposed sales price constraints. The fiscal years 1995, 1996, and 1997 DOD appropriations acts have prohibited DNSC from accepting prices from prospective bidders if zinc prices decline more than 5 percent below the London Metals Exchange market price reported on the date the act was enacted.¹¹

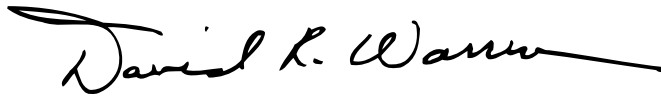
We performed our review from December 1995 to August 1996 in accordance with generally accepted government auditing standards.

¹¹The most recent version is found in section 8101, Department of Defense Appropriations Act for Fiscal Year 1997, as found in the Omnibus Consolidated Appropriations Act for Fiscal Year 1997 (P.L. 104-208, Sept. 30, 1996).

We are providing copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations, Subcommittee on Defense; Senate Committee on Armed Services; House Committee on Appropriations, Subcommittee on National Security; House Committee on National Security; the Director, Office of Management and Budget; the Secretary of Defense; the Director, Defense Logistics Agency; the Administrator, DNSC; the cochairs of the Market Impact Committee; AZA; and all parties that assisted us in this review. We will also make copies available to other interested parties upon request.

Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix VIII.

Sincerely yours,

A handwritten signature in black ink, reading "David R. Warren". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

David R. Warren, Director
Defense Management Issues

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Abbreviations

| | |
|------|-----------------------------------|
| AZA | American Zinc Association |
| DNSC | Defense National Stockpile Center |
| DOD | Department of Defense |

Defense National Stockpile Center Zinc Stockpile Storage Sites and Inventory

Figure I.1: DNSC Zinc Storage Sites



Source: Defense National Stockpile Center (DNSC).

Appendix I
Defense National Stockpile Center Zinc
Stockpile Storage Sites and Inventory

Table I.1: Zinc Inventory by Storage Site

Weight in tons

| Storage site location | Grade of zinc | | | | | Total |
|-----------------------|--------------------|-------------------|---------------|------------------|-------------------|-------------------|
| | Special high grade | High grade | Intermediate | Brass special | Prime western | |
| Huntsville, Ala. | | | | | 10,414.36 | 10,414.36 |
| Stockton, Calif. | 5.29 | 3.34 | | | 35.11 | 43.74 |
| Granite City, Ill. | 2,320.49 | | | 5,176.02 | 10,391.24 | 17,887.75 |
| Savanna, Ill. | 9,607.20 | 25,163.12 | | 4,269.79 | 13,004.61 | 52,044.72 |
| New Haven, Ind. | | 31,995.78 | | 247.87 | | 32,243.65 |
| Somerville, N.J. | | | | | 14,183.29 | 14,183.29 |
| Scotia, N.Y. | | 1,880.83 | | 4,268.91 | | 6,149.74 |
| Seneca, N.Y. | | | | | 2,195.16 | 2,195.16 |
| Voorheesville, N.Y. | | 57,585.33 | | | 1,539.16 | 59,124.49 |
| Sharonville, Ohio | | | 43.60 | 246.19 | 13,051.52 | 13,341.31 |
| Warren, Ohio | | | | | 483.15 | 483.15 |
| Chambersburg, Pa. | | 8,517.53 | | | 30,128.56 | 38,646.09 |
| Marietta, Pa. | | 18,021.99 | | | 8,549.34 | 26,571.33 |
| Mechanicsburg, Pa. | | | | | 4,594.04 | 4,594.04 |
| Point Pleasant, W.Va. | | | 78.08 | 241.32 | 20,638.44 | 20,957.84 |
| Total | 11,932.98 | 143,167.92 | 121.68 | 14,450.10 | 129,207.98 | 298,880.66 |

Source: DNSC.

Information on the Dispute Between the Government and the American Zinc Association Concerning Market Size

The American Zinc Association (AZA) and the government have long disputed the size of the usual market for high grade and prime western zinc. According to AZA's definition of the usual markets for high grade and prime western grade slab zinc, using 1994 data, the usual market is 250,000 tons of actual consumption a year. Officials of the Department of Commerce—members of the Market Impact Committee—estimate the market of these grades to be about 350,000 tons a year, counting both slab and hot metal.¹

AZA's estimates are based on high grade and prime western consumption, as reported by its members, and U.S. Bureau of the Census data on imports from all countries not represented in AZA and adjusted to include stockpile sales and changes in stocks. Commerce's estimates are based on Bureau of Mines survey data, Commerce and Census import data, and discussions with zinc importers—many of whom are AZA members.

The government has revised its estimate of this market from over 600,000 tons to 446,000 tons to its current estimate of 350,000 tons. The latest revision was due primarily to revised estimates of large steel mill consumption of high grade and prime western grade and in the amount of high grade and prime western grade tonnage imported.

A major factor underlying the remaining 100,000-ton difference between the two estimates is the treatment of internal hot prime western metal produced by one prime western processor and used in its zinc oxide production facility (about 62,000 tons). AZA did not include this amount in its estimate of the production of slab prime western grade zinc, stating that this is hot metal, not slab. The government agreed that this tonnage should not be reported as slab and revised the reporting of it under the heading of "zinc metal." The government nevertheless maintains that although this prime western zinc is not converted to slab, it should be included in the estimates of the size of the high grade and prime western zinc market because prime western zinc is being consumed.

An additional difference (38,000 tons) between AZA and the government is that the government's estimates of potential domestic consumption of high grade and prime western zinc includes tonnage that "hot-dip" galvanizers² use, but that is currently being supplied by special high grade zinc. The government believes that high grade or prime western can be used for this purpose and should be used in the market size estimates. AZA, however,

¹Slab refers to cast zinc metal. Hot metal refers to liquid or molten zinc not cast into slabs.

²Hot-dipping is a galvanizing process in which objects are immersed in molten zinc.

Appendix II
Information on the Dispute Between the
Government and the American Zinc
Association Concerning Market Size

stated that “potential” consumption should not be considered in any discussion of usual markets.

In summary, the two sides now agree with each other’s numbers, but not how those numbers are to be used. In any event, the government’s determination of undue disruption of the usual market does not depend on the specific size of the high grade and prime western market alone, but rather on the larger market for all grades of zinc.

Summary of DNSC's Sales Activities

| | | | | | | Prices accepted as measured against the London Metal Exchange price (range in percent) |
|-------------------------------|---------------------|------------------|------------------|------------------|-----------|---|
| Sales dates | Sales held | Bids received | Bids accepted | Bids rejected | Tons sold | |
| Quarterly sales summary | | | | | | |
| March-June 1993 | 7 | 172 | 57 | 115 | 4,812 | -7.67 to -5.28 |
| July-September 1993 | 6 | 163 | 84 | 79 | 7,588 | -6.20 to -2.52 |
| October-December 1993 | 6 | 192 | 96 | 96 | 8,496 | -5.02 to -2.47 |
| January-March 1994 | 6 | 285 | 103 | 182 | 8,961 | -4.06 to -1.93 |
| April-June 1994 | 6 | 300 | 95 | 205 | 9,668 | -0.51 to +1.64 |
| July-September 1994 | 6 | 245 | 104 | 141 | 13,883 | +1.05 to +4.77 |
| October-December 1994 | No sales authorized | | | | | |
| January-March 1995 | No sales authorized | | | | | |
| April-June 1995 | 3 | 115 | 59 | 56 | 4,150 | +6.25 to +10.51 |
| July-September 1995 | 3 | 69 | 45 | 24 | 4,892 | +5.43 to +7.23 |
| October-December 1995 | 2 | 39 | 6 | 33 | 542 | +5.18 to +7.16 |
| January-March 1996 | 3 | 60 | 19 | 41 | 1,243 | +2.84 to +5.10 |
| Yearly sales summary | | | | | | |
| Fiscal year 1993 | 13 | 335 | 141 | 194 | 12,400 | -7.67 to -2.52 |
| Fiscal year 1994 | 24 | 1,022 | 398 | 624 | 41,008 | -5.02 to +4.77 |
| Fiscal year 1995 | 6 | 184 | 104 | 80 | 9,042 | +5.43 to +10.51 |
| Fiscal year 1996 (first half) | 5 | 99 | 25 | 74 | 1,785 | +2.84 to +7.16 |
| Total | 48 | 1,640 | 668 | 972 | 64,235 | |

Note: Figures do not include sales to the U.S. Mint.

Source: DNSC.

Comments From Governmental Organizations



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000



September 3, 1996

Mr. David R. Warren
Director, Defense Management Issues
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "NATIONAL DEFENSE STOCKPILE: Disposal of Excess Zinc," dated August 5, 1996 (GAO code 709178), OSD Case 1200. The Department agrees with the report as presented.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,

John B. Goodman
Deputy Under Secretary
(Industrial Affairs & Installations)



Appendix IV
Comments From Governmental
Organizations



UNITED STATES DEPARTMENT OF COMMERCE
Bureau of Export Administration
Washington, D.C. 20230

August 29, 1996

Mr. David R. Warren, Director
Defense Management Issues
National Security and International Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Warren:

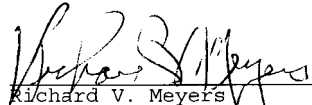
Thank you for the opportunity to comment on the draft August 1996 GAO report on National Defense Stockpile Disposals of Excess Zinc.

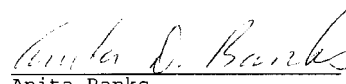
On behalf of the Market Impact Committee (MIC), we concur with the report's findings and conclusions.

Please note in Footnote #5 at the bottom of Page 3 that the MIC is composed of representatives from the Departments of Agriculture, Commerce, Defense, Energy, Interior, State, Treasury, the Federal Emergency Management Agency, and such other persons as the President considers appropriate. This list is from the National Defense Authorization Act of FY 1993 which amended Section 10 of the Strategic and Critical Materials Stock Piling Act.

Also please note at the top of Page 15, that the International Lead/Zinc Study Group is an intergovernmental organization.

Sincerely,


Richard V. Meyers
Commerce Department Co-Chair
Market Impact Committee


Anita Banks
State Department Co-Chair
(Acting)
Market Impact Committee





*International
Lead and Zinc Study Group*

2 King Street, London SW1Y 6QP, England

5 September 1996

Mr. David R. Warren,
Director
Defense Management Issues
United States General Accounting Office
National Security and International
Affairs Division
Washington, D.C. 20548
U.S.A.

Dear Mr. Warren,

Thank you for your letter dated 5 August 1996 and the draft report on the dispute between the American Zinc Association and the federal government regarding the sale of zinc from the National Defense stockpile.

Our organisation has no further comments to make at this time.

Yours sincerely,

Paul N.C. White
Statistician

Tel: (44) 171 839 8550
Fax: (44) 171 930 4635

Telex: 299819 ILZSG G
E-Mail: 101730,2542@compuserve.com

Comments From the American Zinc Association



American Zinc Association

1112 Sixteenth Street, N.W., Suite 240, Washington, D.C. 20036 Tel: (202) 835-0164 Fax: (202) 835-0155

September 6, 1996

Mr. David R. Warren
Director
Defense Management Issues
U.S. General Accounting Office
Washington, D.C. 20548

Re: GAO/NSIAD-96-197

Dear Mr. Warren:

The American Zinc Association ("AZA") thanks you for the opportunity to provide comments on the draft of the above-referenced report ("Draft") treating the issue of disposal of zinc from the strategic stockpile. AZA has read the draft report closely and appreciates the effort GAO has put into the draft. Notwithstanding that effort, however, AZA believes GAO has not comprehended key elements of this issue; indeed, GAO seems to have missed certain basics of the zinc market.

As GAO and Congress know, AZA has for some time asserted that the government was using wholly inaccurate data on U.S. consumption of the two grades of zinc -- High Grade ("HG") and Prime Western ("PW") -- comprising the bulk of the stockpile. It followed, then, logically that the government's conclusions about the impact of disposals of those two grades had to be suspect due to the fundamentally flawed underlying data.

The Draft shows that AZA concerns over the government's data were fully justified; the government's numbers were wildly off (although the Draft never comes right out and says so) and the industry's figures were correct. Nonetheless, despite the government's underlying data having been shown to be wholly in error, GAO finds that the government's ultimate conclusion is still correct. In so doing, however, AZA believes GAO (i) failed to mention uncontroverted material facts showing that AZA has not been wildly off-base in its concern over the government's analysis of the zinc market and (ii) introduced irrelevant material that does little to address the concerns of the industry. In addition, GAO's interpretation of the relevant statutory language affords less protection against market disruption than does AZA's, despite the clear concern of Congress that disruption be avoided. Finally, however, AZA believes GAO's analysis proves AZA's case!

Concerned that the Draft failed to highlight key issues in dispute between the government and

Now GAO/NSIAD-97-30.

industry, and worried that the Draft's presentation lacked facts enabling Congress to decide what should be done as a result, AZA met with GAO on September 5 to review the Draft. AZA believed such a meeting would assist GAO in preparing a final report.

AZA thanks GAO for that meeting which involved a full review of these comments in draft. (Please note that these final comments have changed somewhat as a result of input from AZA members, particularly on page 6, points I. and II.) GAO understood all of AZA's points and agreed to look into a number of changes to make the final report more useful to Congress and more balanced in its treatment of key elements of this dispute. With respect to changes suggested below adopted by GAO in its final report, AZA indicates its appreciation to GAO. AZA also thanks GAO for including these comments as an appendix to the final report.

AS TO UNCONTROVERTED MATERIAL FACTS NOT MENTIONED BY GAO

I. **Fact:** The Market Impact Committee's Key Estimate is Shown to be Wildly Wrong.

Discussion: On August 21, 1995, the Market Impact Committee ("MIC") wrote AZA¹ that it estimated the "potential HG/PW market...to be in excess of 600,000 ST." One of the major complaints by AZA that generated the request for this study was that it believed this 600,000-ton figure was beyond the realm of reality.

Despite the obvious importance of this MIC estimate, however, the Draft never mentions this statement by the MIC. Rather, the Draft (at 19) states that the government's "current estimate [of the HG/PW market] is about 350,000 short tons." In addition, the Draft (at 19) refers to some other government estimate of 446,000 tons, again omitting reference to the MIC's 600,000-ton estimate that helped trigger this investigation.

AZA deems it quite significant that the MIC's number has been shown to be totally without foundation and has been cut by an astonishing 42% as a result of AZA's doggedness. For example, it was AZA, not the government, that discovered the out-of-date estimates for "steel mill consumption of high and prime western grade and in the amount of high grade and prime western tonnage imported." (Draft at 19). AZA believes the final report should specifically mention the MIC's wildly inflated figure, should state that AZA's concerns over the 600,000-ton number were fully justified, and should admit that the government has developed its new estimates solely as a result of AZA's insistence. An uninformed person reading the Draft would never know that the MIC's estimate was totally without foundation and that the government's new estimate is based on AZA information and would not have been made without AZA's persistence and assistance.

To read the Draft, a person with no background on the issue would not know that, in fact, the government's key oversight group -- the MIC -- has been operating on the basis of wholly

¹ A copy of the MIC's letter to AZA containing this representation is attached.

See comment 1.

Now on p. 22.
Now on p. 22.

Now on p. 22.

inaccurate figures.

II. **Fact:** The Government is Changing its Reporting as a Result of AZA's Efforts.

Discussion: Again, an uninformed reader would think that AZA was somehow remiss in not including the "internal hot prime western metal....in its estimate of the production of slab prime western grade zinc." (Draft at 19). Of course AZA did not include hot metal in its estimate of slab for the simple reason that hot metal is not slab!

AZA repeatedly told the government that it believed the government was improperly counting the internal hot metal as slab. AZA was repeatedly assured, however, by the government (incorrectly as it now turns out) that the internal hot metal was not counted as HG/PW slab. The final report should state that the government had repeatedly assured AZA that this hot metal was not included in the government's published figures for PW slab. The final report should state that the government will be changing its reporting, as a result of AZA's actions, to indicate the production of PW metal, not slab. Again, major gaps in the government's reports were uncovered by AZA, yet the average reader would never know that from the Draft.

III. **Fact:** Stockpile Slab Cannot be Used in Place of Hot Metal made into Zinc Oxide.

Discussion: Without more, the Draft (at 19) states the government's view that "although prime western zinc is not converted into slab, it is prime western zinc that is consumed" because it goes into oxide production. The Draft nowhere notes that GAO was told that the particular oxide production facility in question cannot use slab as its feed. Readers should have all the facts, and know that the stockpile slab could never substitute for the hot metal, so as to be able to form an independent opinion as to whether the government's claim is relevant to the issue of what are the "usual markets" for the slab zinc in the stockpile.

IV. **Fact:** AZA and the Government Now Agree on the Actual HG/PW Slab Market Size.

Discussion: AZA and the government agree that the actual market for HG/PW slab is approximately 250,000 tons/year, yet this is nowhere even hinted at in the Draft. AZA has specifically told GAO that stock changes and stockpile disposals have to be added to the 212,000-ton figure it cites as 1994 shipments of HG/PW slab.² That then totals approximately 250,000

² GAO states that "AZA calculates the market size on the basis of consumption, as reported by its members." (Draft at 19). AZA hopes GAO will clarify its statement, as it is misleading as written. GAO was specifically told by AZA that AZA used Census data on imports under HTS 7901.1250 from all countries not represented in AZA in developing its total.

Now on p. 22.

Now on p. 22.

See comment 5.

tons of actual consumption, a figure AZA repeatedly used with GAO investigators.

Subtracting the 62,000 tons of hot metal never turned into slab (Draft at 19) and the 38,000 tons estimated to be the amount of HG/PW consumers could switch to from other grades (Draft at 20) from the government's 350,000-ton estimate³ (Draft at 19) results in the government's agreement on 250,000 tons of actual HG/PW slab zinc consumption in 1994.⁴

AZA believes it is critical that Congress know the size of the actual HG/PW slab market so that Congress may consider whether the requested level of stockpile sales of HG/PW slab is reasonable in that specific context. In addition, AZA believes Congress should have this information in order to assess whether, as AZA states, the "usual markets" for HG/PW slab should be the same as the actual slab market for those grades. Finally, AZA hopes that GAO report that AZA's figures were long accurate and have, at last, been accepted by the government. Many in the government have taken specific issue with AZA's numbers, and we believe GAO has an obligation to note the correctness of AZA's position.

V. **Fact:** Various Grades of Zinc are Commonly Recognized as Distinct.

Discussion: To read the Draft, one would conclude that all zinc is the same -- consumers regularly change purchasing patterns depending on market factors; producers change production in response to demand; and within the same industry (presumably galvanizing) different grades are used. While perhaps GAO did not mean to be so general, there can be no doubt that the Draft nowhere states certain basic, indisputable facts about the market:

- HG, PW and Special High Grade ("SHG") have separate, official specifications, long established by the American Society for Testing and Materials. See attached.
- Continuous Galvanizing Grade ("CGG") is a grade used by continuous galvanizers only. Its composition is customized by each purchaser.
- The London Metal Exchange ("LME") is the largest zinc trading market in the world. The LME trades only SHG and only certain registered brands of SHG. None of the material in the stockpile could trade on the LME.
- There are spot prices for the four grades published regularly in trade press. A copy of current data is attached.
- SHG enjoys a separate tariff number from the other grades.
- The government asks U.S. producers to report production by grade to the

³ AZA was advised by GAO that the government's market figures include stock changes and stockpile disposals. AZA's total and the government's total reflect the same components.

⁴ AZA does not agree with GAO's conclusion that part of the difference between AZA's numbers and the government's estimate is accounted for by the presence of HG/PW producers who are not members of AZA. (Draft at 19). AZA knows of no U.S. producers of HG/PW who are not members of AZA, and the USGS has not identified any to AZA in response to a specific question on this score. AZA believes GAO should check with USGS to confirm this.

Now on p. 22.

government.

- The government produces public data -- albeit flawed -- on production and consumption by grade.

AZA believes Congress should have these basic background facts to enable it to decide whether, contrary to these many indicia, all zinc is the same.

AS TO CERTAIN IRRELEVANT FACTS CITED BY GAO

I. The Amount of Bids Rejected Means Little.

Discussion: While critical relevant facts cited above that either would have made the government's performance look worse or would have made AZA look better are not cited in the Draft, the Draft devotes considerable space to a discussion of the number of bids rejected by the stockpile (Draft at 13). That number, in AZA's view, is simply irrelevant.

Because the maximum annual amount available for sale is established by Congress, the stockpile only has so much zinc to offer each month. The stockpile cannot dictate how many bids it receives for that monthly amount. If the stockpile receives bids for more than the amount it is offering, it must perforce reject some bids. That has happened on a number of occasions.

In addition, the stockpile receives low-ball bids which it rejects out of hand as too low. Again, AZA does not see the relevance of applauding the stockpile for doing its duty and rejecting unreasonably low bids.

II. The Range of Bids Above and Below the LME Tells One Nothing.

Discussion: Just as with the number of bids rejected, it seems to AZA that the discussion of the range of prices received by the stockpile in relation to the LME, without more, is irrelevant.

The stockpile sells HG/PW in the spot market. The LME price for SHG is not the measure of the spot market for HG or PW zinc, as GAO knows.⁵ GAO was furnished with published price data -- data publicly cited by the stockpile -- showing the daily spot price for HG and PW. The spot price includes, as GAO recognizes (Draft at 11), a premium over LME.

Over the period that the stockpile has been selling zinc, that premium has ranged from a low of about two cents per pound to a high of approximately ten cents per pound while the LME price has traded in a rather-narrow band (see attached). Thus, if the GAO refers to the stockpile accepting bids at 5% above an LME price of \$0.43/lb., for a total of \$0.4515/lb., one knows

⁵ In fact, not one pound of stockpile slab zinc could be sold on the LME. Again, GAO should point this out, so that Congress may consider that in determining whether the government's overly expansive view of the "usual markets" for stockpile zinc is correct.

nothing about how that compares with the spot market. For example, if that sale occurred at a time when the premium is seven cents per pound, or a total of \$0.50/lb., the stockpile has not realized a good price. For the GAO to look simply at LME tells nothing about whether or not the stockpile has realized a good price. Confirming that the premium spread is the relevant indicator is the attached article from the August 22 American Metal Market.

AZA is concerned that GAO has failed to grasp this basic feature of the zinc market.

OTHER AREAS OF DISAGREEMENT WITH THE DRAFT

I. The Implications of Some Producers Switching Production Per Customer Demand.

Discussion: Without any explanation, the Draft (at 6) attaches considerable importance to the fact that “some producers adjust their production of different grades according to supply and demand for each grade.” That fact, then, is used to support GAO’s conclusion that all zinc is the same and the “usual markets” for the stockpile’s HG/PW is the entire market.

The fact that producers may switch production leads to no such conclusion. If producers make more PW in a particular year, for example, that’s virtually certain to be due to increased demand from the hot-dip galvanizers. That increase in hot-dip demand, in turn, has nothing to do with CGG or SHG for the continuous galvanizers. The industry’s firm view, communicated to GAO, is that demand for particular grades has to do with the needs for particular applications. GAO should recheck its data on this central point and, for balance, should note that GAO’s view is disputed.

II. There is Disagreement that Price Declines in One Grade Depress Prices of Other Grades.

Discussion: Again without explanation, GAO concludes that zinc is fungible because “a decline in the price of one grade tends to depress the prices of other grades.” (Draft at 6). GAO offers no empirical evidence for this statement which is surprising since GAO has been told otherwise by at least one major U.S. producer. That producer told GAO that since PW will not compete with SHG or CGG, it is doubtful that putting more stockpile material on the market would depress SHG or CGG prices.

Again, AZA suggests GAO may have been imprecise in its writing. It is the case that declining SHG prices on the LME drag down the prices of HG/PW because SHG can be used in place of those grades (and also because many long-term supply contracts for any grade are pegged to the LME), but the reverse is not the case because of lack of substitutability. If this is the case, GAO’s conclusion certainly does not follow. GAO should recheck this central item as well, as well as noting the disagreement.

See comment 10.

Now on p. 4.

As to the Statute's Concern over Market Disruption

GAO takes pains to point out that the government's interpretation of the term "usual markets" to mean the entire market for any grade of zinc is reasonable. (Draft at 4-7). In support of this, GAO claims the government has discretion in defining such a term, and that this discretion will not be disturbed if it has a reasonable basis. (Draft at 5). With all due respect, AZA believes this analysis misses the mark.

GAO is correct that the statute does not define "usual markets". Where a term such as this is undefined or where its meaning is unclear, the underlying legislative history must be examined in order to ensure effectuation of Congressional intent. See, e.g., U.S. v. Markwood, 48 F. 3d 969 (9th Cir. 1995). And, if more than one meaning is possible, the interpretation which can most fairly be said to be embedded in the statute, that which is most in keeping with the purpose of Congress, must be adopted. In re Arizona Appetito's Store, Inc., 893 F. 2d 216 (9th Cir. 1990). See also Shapiro v. U.S., 335 U.S. 1, 31 (1948) (if more than one interpretation is possible, interpretation that will best effect the purpose must be used).⁶ Agency interpretation is always subordinate to Congressional intent. U.S. v. Shimer, 367 U.S. 374, 382 (1961).

The brief legislative history of this provision dramatically illustrates the particular concern of Congress over market disruption by stockpile disposals, and underscores that the disruption must be avoided. The Report of the Senate Committee on Military Affairs adding the market-disruption language to the statute states:

"SPECIAL FEATURES OF COMMITTEE AMENDMENT

The committee desires to **call attention** to two **special** features contained in the committee amendment, namely, the 'buy American' and release provisions contained in section 4 of the committee amendment." (S. Rpt. No. 894, 79th Cong., 2d Sess.(1945)) (emphasis supplied).

The fact that the committee specifically took careful pains to "**call attention**" to the "**special**" provision containing the "usual market" phrase indicates the special concern the committee had for that new provision. In addition, the fact that the committee established stringent safeguards (no disposals be made until six months after notice of proposed disposition was given to Congress and published in the Federal Register) underscores the skittishness Congress had over disposals. By establishing such safeguards in this area of "special" concern, it is obvious Congress intended to minimize the impact of disposals on the "usual markets".

It cannot be denied as a matter of simple economics and common sense that the interpretation given by the government of "usual markets" affords less protection against market disruption than the industry's interpretation of that term. In fact, GAO concedes that AZA's view is less disruptive:

⁶ At the September 5 meeting, GAO counsel appeared to agree with this line of authority.

“The government recognizes that stockpile sales can affect some sellers more than others, despite its attempts to minimize disruption. The sales may, for example, have a greater impact on the sellers of the grades being sold from the stockpile, and a seller of more grades could be more affected than a seller of several grades.” (Draft at 3).

Under the normal rules of statutory construction cited above, the industry’s reading is certainly more in keeping with the “special” concern Congress had over disposals and must be adopted as more in keeping with Congressional intent. Adopting the government’s view would permit more disruption to occur because it would allow the specific impact of HG/PW disposals to be lost in a review of the impact on the much-broader market. Such a notion flies in the face of the concern of Congress.

AZA is pleased that GAO agreed to look again at this point. AZA hopes that, at the least, the final report acknowledges that AZA’s interpretation of the statute is reasonable, as well as indicating AZA’s interpretation would afford more of a safeguard against undue disruption than would the government’s view.

As to GAO Making Industry’s Case

As proof that the entire 1.35-million ton slab market is the relevant market in which the impact of disposals is to be measured, GAO relies on its conclusion that “some zinc consumers adjust their purchases of different grades of zinc according to changing market factors.” (Draft at 6). Thus, says GAO, zinc grades are fungible and one has to look at the entire slab market to determine the impact of HG/PW disposals.

First, as discussed above (p.6), AZA’s members producing SHG and CGG dispute the notion that “some zinc consumers adjust” from such “higher” grades as SHG and CGG to HG or PW -- much less the uncertified HG or PW in the stockpile -- in response to “changing market factors”. If such has occurred, these producers are unaware of it and GAO has been so advised by these producers in response to the Draft’s statement to the contrary. GAO should carefully check the factual bases for its statement. If, in fact, what GAO meant was that consumers sometimes substitute CGG or SHG for HG/PW, that is not relevant to looking at who might use the HG/PW in the stockpile and voids GAO’s conclusion.

Apart from that problem, however, GAO then admits the government estimates that only 38,000 tons of HG/PW from the stockpile could be substituted for SHG in certain galvanizing uses.

Now on p. 22.

(Draft at 20).⁷ GAO seems to have used this small group of “swing” buyers as a bootstrap. What GAO says is that 38,000 tons of potential, additional HG/PW slab use requires that the market impact of disposal be judged not against the usual 250,000-ton market for HG/PW slab, but, rather, requires judging the impact on a total market of 1.35 million tons of all grades. That is economically illogical even if it were factually true, which AZA does not concede. It is a true example of the tail wagging the dog.

In fact, GAO has unintentionally made AZA’s case. GAO has found that potential sales of HG/PW are extremely limited in the context of the full zinc market.⁸ That is precisely AZA’s point. The stockpile’s HG/PW zinc simply has not, does not and -- using the government’s own numbers -- cannot compete against the bulk of slab zinc consumed in the U.S. The bulk of that consumption simply cannot fairly be said to be the “usual markets” for HG/PW slab.

Summary

Congress intended that the provisions on disposal be carefully crafted to minimize disruption of the “usual markets” for stockpiled goods. The actual market for HG/PW slab is 250,000 tons. As a result of AZA’s persistence, AZA and the government finally agree on that number.

According to GAO, the government estimates 38,000 tons of current SHG consumption by some galvanizers had the potential to shift to HG/PW. GAO concedes by implication that no CGG and no SHG for other uses would similarly shift. GAO does not identify any other potential shifts.⁹

Despite the smallness of the actual HG/PW market in comparison to the overall slab market of 1.35 million tons, GAO concludes that the potential of 38,000 tons of SHG consumption to shift to HG/PW requires a finding that the “usual markets” for HG/PW slab is the entire slab market. That makes no common or economic sense and does violence to the intent of Congress that disruption

⁷ GAO’s discussion limits this potential switching to current SHG consumers only. Thus, GAO impliedly indicates CGG consumers could never switch. This underscores the inappropriateness of GAO’s conclusion that, because consumers switch back and forth between grades, “usual markets” means all grades, including CGG consumption

⁸ Of course, AZA maintains that potential consumption of HG/PW is simply irrelevant to a discussion of “usual markets” as a matter of plain English. “Usual” means normal or customary, “potential” means just the opposite. Canons of statutory construction require that words used by Congress, unless otherwise defined, shall be interpreted using their normal meaning. *Chevron v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 860 (1984). AZA believes GAO should have opined on this obvious shortcoming in the government’s position, particularly since this issue, too, has been a specific item of considerable controversy between the MIC and AZA. AZA specifically requests GAO to opine on this issue in its final report.

⁹ The government’s failure to identify other users of SHG who might switch to HG/PW supports AZA’s belief that other major consuming sectors beyond the steel mills using CGG and the rolling mills using SHG are not potential switchers to HG/PW. This further undercuts GAO’s conclusion that all grades of zinc are somehow equal.

Appendix V
Comments From the American Zinc
Association

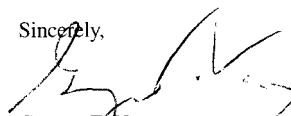
be minimized. On the other hand, AZA's view that the "usual markets" for HG/PW zinc means just that, the normal, actual HG/PW market, is wholly consistent with Congressional intent and makes simple sense.

AZA is concerned that the Draft omits so many material facts and purports to rely on simply irrelevant items. Certainly the failure of GAO to note that the MIC's key estimate of the potential HG/PW market was off by **42 %**, even though AZA has repeatedly raised that estimate as at the bottom of this dispute, is troubling. Similarly, the fact that the government's slab zinc numbers, long used by the MIC to bless DNSC's proposals, were shown by AZA to contain substantial errors is nowhere mentioned although clearly relevant to Congress. As another example, GAO's avoidance of the entire issue of actual vs. potential consumption means a key element of the dispute leading to the call for this study is left uncovered.

AZA recommends that GAO recheck a number of its facts and do considerably more research into the issues here before it issues a final report to Congress. As written, many of the Draft's generalities do not withstand scrutiny. Moreover, many of the general statements, particularly with respect to substitutability of grades, have been made without indicating that there is considerable opinion to the contrary. AZA, as it has in the past, will assist in any way necessary.

Finally, AZA suggests the final report recommend to Congress that consideration be given to defining "usual markets". AZA believes that its view of that term makes sense and affords greater protection against the market disruption Congress feared could occur from disposals. The government's interpretation affords less protection. Congress should decide whether the lower level of protection is what it wants.

Sincerely,



George F. Vary
Executive Director

The following are GAO's comments on the American Zinc Association's letter dated September 6, 1996.

GAO Comments

1. The final report (app. II) reflects the numbers used by the Market Impact Committee.
2. The final report (app. II) shows that the government has revised its reporting.
3. Neither we nor the Market Impact Committee has asserted that the stockpile slab could substitute for the hot metal in the particular company's production of zinc oxide. Zinc oxide producers use slab zinc or zinc recovered from recycled materials as their feed. This particular company, as AZA pointed out, does not use slab as its feed. It uses hot metal that has not been converted into slab. Whether the prime western zinc refined by this company is first converted into slab or is kept as hot metal is not relevant to whether it is part of the high grade/prime western zinc market.
4. The final report (app. II) reflects that while the two sides now agree with each other's numbers, they do not agree on how those numbers are to be used. In any event, the government's determination of undue disruption of the usual market does not depend on the specific size of the high grade and prime western market alone, but rather on the larger market for all grades of zinc. Also, we revised the text to clarify the source of the numbers.
5. It is not our position that all zinc is the same, that all grades have the same uses, or that there is perfect substitution among the grades. Rather, our position is that the different grades of zinc can be considered to be in the same market because most producers can switch from one grade to another, some consumers (galvanizers) can use different grades for the same purpose, and prices of the different grades of zinc move in similar patterns.
6. As AZA points out, bids are rejected for many reasons. Some bids are "low-ball" and are rejected. However, we disagree with AZA's comment that DNSC rejects bids because there are sometimes more bids than tonnage available for sale. Under DNSC's current sales arrangements, there is no monthly limit as to the amount that can be sold, except as dictated by the yearly limit set forth in the annual congressional authorization. At the start

of the current sales program for zinc, DNSC's solicitation publicized that the government was soliciting bids for approximately 8 million pounds, or 4,000 tons, a month. In October 1995, the amount per month was raised to 100 million pounds, or 50,000 tons, which was the entire authorization for the year. Despite AZA's assertion, DNSC said that it had not rejected bids because it had received more bids than the amount available for sale. DNSC indicated that the primary reason bids were rejected was because the price offered was too low and would not have maximized revenue for the government.

7. To clarify our point that DNSC is showing concern for the prices at which it sells zinc, we added figure 3 comparing DNSC's selling prices with those for spot market transactions in the commercial market. It shows that for the period cited, DNSC's sales prices were within 2 to 3 cents of the commercial market. Both DNSC and the Market Impact Committee believe that the difference is reasonable considering the different terms of sale for DNSC and commercial transactions. Comments from producers, consumers, and others on our draft report also support this position. DNSC's sales require the buyer to pay for transportation from the government depot, pay for the zinc before delivery, and accept the zinc on an "as-is" basis. Commercial transactions are made on a delivered price basis, provide for 30- to 40-day financing, and have the zinc's quality certified.

8. (See comment 5.) We have not concluded that all zinc is the same, but rather that different grades of zinc can be in the same market. Most producers can switch production from one grade of zinc to another. If a producer who is currently selling prime western or high grade zinc can get a better return on its investment by selling another grade, it may do so (after factoring in customer relationships that the producer may want to maintain). Thus, that producer's ability to switch production to another grade means that the price decrease required to absorb additional supply, such as stockpile sales, is less than it would be if all sellers of high grade or prime western had no alternative but to continue to supply high grade or prime western zinc.

9. (See comment 8.) As stated, we did not conclude that zinc itself is fungible in all, or even most, uses, at least not given the range of price differences in the market. There are, however, some substitution possibilities for some zinc consumers, and most zinc suppliers. This limits the degree that the price of one grade of zinc will rise or fall without affecting the prices of other grades.

10. We agree that where a statutory term is undefined, the interpretation that best reflects the intent of the Congress should generally be adopted. However, contrary to the AZA statement, nothing in the act's legislative history requires DNSC to adopt AZA's view of usual markets. Our final report reflects this position.

11. (See comments 8 and 9.) We did not state that consumers switch from higher to lower grades of zinc. However, in commenting on our draft report, one consumer (U.S. Zinc) that uses slab zinc to produce zinc oxide indicated that it could substitute stockpile high grade for imported special high grade for most of its needs. We did say that some consumers can switch from one grade of zinc to another and this is one reason for including different grades of zinc in the same market. The 38,000 tons of high grade or prime western zinc that some hot-dip galvanizers can use, and is currently being supplied by special high grade zinc, is an example of potential consumption substitution.

Comments From Individual Members of the American Zinc Association

SAVAGE

SAVAGE ZINC, INC.
P.O. BOX 1104
CLARKSVILLE, TN 37041-1104
TELEPHONE 615-552-4200
FACSIMILE 615-552-0471

August 8, 1996

Mr. David R. Warren, Director
Defense Management Issues
U. S. General Accounting Office
National Security and International Affairs Division
Room 4E15, GAO Building
441 G Street, NW
Washington, DC 20548

Dear Mr. Warren:

Thank you for the opportunity to review and comment on your draft report regarding the dispute between the American Zinc Association and the federal government concerning the sale of excess zinc from the National Defense Stockpile. Prior to making specific comments I would like to restate Savage's position regarding these sales.

1. Sell 35,000 to 40,000 tons per year, every year, until the inventory is depleted.
2. Disregard trigger prices and sell the material to obtain the best return for taxpayers at the time of sale.
3. Announce this policy and stick with it in good markets as well as bad.

The AZA position, as stated on P. 19 in Appendix II, is correct. The 62,000 tons per year of Prime Western zinc in question is produced from secondary feeds which essentially bear no cost. This molten zinc has never gone to market as slab. Thermal refining and conversion to zinc oxide yields the highest economic benefit to the producer. If Prime Western metal was purchased and converted to oxide I could accept the government's position. However, this is not the case and the economic viability of such a scheme is suspect. Therefore, I believe the AZA estimate of U. S. domestic market for High Grade and Prime Western zinc of 212,000 tons per year is more realistic than the government estimate of 350,000 tons per year.

The sentence on Page 5, "In contrast, different grades of zinc may be used within the same industry," is misleading. Normally higher grades could be substituted for Prime Western. Substitution of Prime Western for higher grades is most unusual.

The lead paragraph on Page 6 is also misleading. Zinc consumers purchase specific grades of zinc to meet the demands of their specific application, market factors are seldom a consideration. I would covet a salesman that could sell Prime Western in place of Special

Now on p. 22.

See comment 1.
Now on p. 4.

See comment 2.
Now on p. 4.

Appendix VI
Comments From Individual Members of the
American Zinc Association

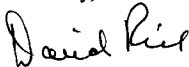
2

High Grade or Continuous Galvanizing alloys for steel mills. Producers do adjust the production of different grades to customer demand. We have to make what the customer wants or we lose the business. I truly doubt that flooding the market with Prime Western zinc would depress the price of Special High Grade or Continuous Galvanizing alloys. Prime Western simply will not substitute for these grades.

As a personal opinion, I believe that zinc sales by the DLA have been conducted in a responsible manner. Had the DLA followed Savage's suggestion about twice as much zinc would have been sold and any impact that DLA sales may have had on the market would have been minimized. A consistent message to the market has been lacking. Why seek authorization to sell 75,000 tons and sell 12,400?

Say what you are going to do and do what you said you would!

Sincerely,

A handwritten signature in black ink, appearing to read "David Rice".

David Rice
President and CEO

**Appendix VI
Comments From Individual Members of the
American Zinc Association**



September 5, 1996

Mr. David R. Warren, Director
Defense Management Issues
U. S. General Accounting Office
Washington, D. C. 20548

RE: GAO/NSIAD-96-197

Dear Mr. Warren:

U. S. Zinc, a member in good standing of the American Zinc Association (AZA), thanks you for the opportunity to provide comments on the draft report treating the issue of disposal of excess zinc from the strategic stockpile.

U. S. Zinc appreciates the time and effort the GAO has put into the "draft" and fully supports its results.

We, in fact, would additionally like to request the DNSC begin the sale of zinc through long term contractual agreements. Your findings in the GAO draft support this process by stating it believes the DNSC is "paying attention to the market and is committed to not causing an undue disruption". U. S. Zinc also believes this method (long term contracts) is more typical, less disruptive, and, therefore, better for the industry; plus, it would provide a guaranteed revenue stream for the government.

Furthermore, we feel that through a long term contract companies now buying foreign metal would be able to purchase zinc from the stockpile, improving our balance of trade and generating revenues for the United States. By example, U. S. Zinc could purchase annually high grade metal (HG) available from the DNSC as a substitute for the 23,000 tons of special high grade zinc (SHG) we now buy. The majority of the SHG we purchase is imported zinc. We feel, as a taxpayer, it makes more sense to purchase zinc from the DNSC helping to generate revenue to reduce our government's deficit.

Finally, it is our feeling that enough time and money have been spent by the government on this issue. It is now time to support the taxpayers of this country by selling stockpile zinc (and other materials) in a manner consistent with the GAO findings.

Sincerely yours,

Steve Brown,
Vice President

cc: Market Impact Committee



P. O. Box 611 · Houston, Texas 77001-0611 · Phone: (713)926-1705 · Fax: (713)923-1783



Appendix VI
Comments From Individual Members of the
American Zinc Association



ZINC CORPORATION OF AMERICA
300 FRANKFORT ROAD MONACA, PA 15061-2295

(412) 774-1020

September 4, 1996

Mr. David R. Warren, Director
U. S. General Accounting Office
441 G Street, N.W.
GAO Room 4A12
Washington, DC 20548

Dear Mr. Warren:

Thank you for the opportunity to comment on the GAO Draft Report - The Sale of Excess Zinc from the National Defense Stockpile dated August 1996, and to take our comments into consideration for the final report.

Background

Zinc Corporation of America (ZCA) is the last American-owned/operated zinc refinery in the U.S. (attached enclosure), with 1,400 employees in Balmat, New York; Palmerton, Pennsylvania; Bartlesville, Oklahoma; and Monaca, Pennsylvania. As the largest zinc refinery in the U.S., we are the only producer on the continent to use the "electrothermic process," producing only Prime Western (PW) grade zinc. The metallurgical process used by all other refineries in the continent/Europe is the "electrolytic process" designed to produce only Special High Grade (SHG) zinc. SHG can be used in all the U.S. markets: 1,200,000 tons per year. All suppliers can participate in the total market with two exceptions -- ZCA and The Defense Logistics Agency's Defense National Stockpile Center (DNSC). Our product, Prime Western, is unique in chemistry and can only be consumed by 25% - 35% of the total U.S. marketplace -- specifically in the brass and hot-dip galvanizing industries. The DNSC, releasing only PW/HG, is similarly market-restricted and sells basically into the same marketplace as ZCA. All the other producers, to avoid competition with the DNSC and to improve their return, will by-pass stockpile customers and elect to go elsewhere -- continuous steel lines, alloyers, die casters, mint, anodes, etc. This situation, at the very least, aids foreign competition by weakening ZCA's viability. We hope that the GAO will recognize and appreciate our concerns.

JSC-A-103196.L7N

The Problem

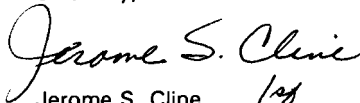
We were disappointed in your interpretation that the "Government's view of the usual market for zinc has a sound basis ... and is reasonable," and that the DNSC "tried to sell its zinc close to commercial prices." However, what has us the most concerned is that the report was so narrowly focused that it left out a myriad of problems and opportunities that we had brought to the GAO's attention during several meetings this year, including:

- Creation of a long-term disposal program that would eliminate the transparency of the disposal price. We have, and will be pleased to continue to work with the DNSC to establish such a long-term program.
- Upgrade HG/PW stockpile metal to SHG for sale to the mint.
- Stockpile sales pricing as it is still below market price forcing us "to meet DNSC competition by lowering our price." (Note: Most DNSC sales have been to commission trader/brokers who are still able to sell below market.)
- The authorized 50,000 tons yearly disposal as it is unreasonable and should be lowered to the releases made up to this point FY96. The current level of sales has proven to be manageable from a commercial competitiveness basis and should be maintained.

Twenty-five years ago, the U.S. was self-sufficient in zinc production. The reasons for plant closures are numerous; but they are generally associated with low zinc prices and/or over-supply. The DNSC has the potential to severely impact the viability of the last American-owned/operated refinery -- Zinc Corporation of America.

Thank you for allowing us to share these problems/opportunities with you and anticipate discussing these issues with you at the Congressional hearing.

Sincerely,



Jerome S. Cline /sf
Senior Vice President - External Relations

/sf
Enclosure

JSC-A-100196.LTR

Appendix VI
Comments From Individual Members of the
American Zinc Association

| U. S. PRIMARY ZINC SMELTING INDUSTRY 1971 - 1995 | | | |
|---|--------------------|----------------------------------|-----------------------------------|
| Company | Location | Capacity (Tons) | Remarks |
| Amax | Blackwell, OK | 82,000 | Closed - 1973 |
| American Zinc | Dumas, TX | 53,000 | Closed - 1971 |
| Anaconda | Great Falls, MT | 147,000 | Closed - 1972 |
| Anaconda | Anaconda, MT | 79,000 | Closed - 1969 |
| Asarco | Amarillo, TX | 48,000 | Closed - 1975 |
| Asarco | Corpus Christi, TX | 100,000 | Closed - 1985 |
| Big River Zinc | Sauget, IL | 86,000 | |
| Bunker Hill | Kellog, ID | 95,000 | Closed - 1981 |
| Eagle Picher | Henrietta, OK | 36,000 | Closed - 1969 |
| Jersey Miniere | Clarksville, TN | 100,000 | |
| M&H Zinc | Meadowbrook, WV | 41,000 | Closed - 1971 |
| New Jersey Zinc | Depue, IL | 64,000 | Closed - 1971 |
| New Jersey Zinc | Palmerton, NJ | 82,000 | Closed - 1980 (Metals Circuit) |
| Defense Logistic Agency Strategic Inventory | Various | 325,000 (remaining inventory) | Opened - 1993 |
| ZCA | Bartlesville, OK | 50,000 | Closed - 1993 |
| ZCA | Monaca, PA | 80,000 | |

The following are GAO's comments on letters from individual members of AZA.

GAO Comments

1. For clarification, we have revised the text of the final report.
2. We did not conclude that zinc itself is fungible in all, or even most uses, at least not given the range of price differences in the market. There are, however, some substitution possibilities for some zinc consumers and most zinc suppliers. This limits the degree that the price of one grade of zinc will rise or fall without affecting the prices of other grades.

Comments From Other Interested Parties

American
Galvanizers
Association



Serving the
North
American
Galvanizing
Industry
Since 1913

September 18, 1996

Mr. Reginald L. Furr, Assistant Director
National Security and International Affairs Division
United States General Accounting Office
Washington, DC 20548

Fax # 202-512-2501

Subject: Dispute between the American Zinc Association and the DOD regarding
the sale of National Defense Stockpile

Dear Mr. Furr:

Thank you for the opportunity to provide input on the sale of zinc from the
National Defense Stockpile. The Board of Directors of the American Galvanizers
Association (AGA) spent considerable time discussing this issue and has
formulated the following response.

Because the AGA galvanizer members deal only with zinc metal, we have no way
of knowing how best to define the "usual" size of the entire zinc (oxide, alloy &
metal) market. In the interest of the entire industry and because we are not aware
of any recent past "undue disruption" of the marketplace caused by stockpile
sales, we recommend that the parameters and mechanisms currently used by the
DLA to regulate the volume and pricing associated with the zinc dispersed from
warehouses continue to be used in the upcoming fiscal year.

Sincerely,

Basil A. Shorb III
President of the American Galvanizers Association, Inc. Board of Directors

cc: AGA Board Members

2200 East Hill Avenue Aurora, Colorado 80014 Phone 303-750-2900 FAX 303-750-2909

Appendix VII
Comments From Other Interested Parties



4320 NORTH 35th STREET • P.O. BOX 16905 • MILWAUKEE, WISCONSIN 53216
TELEPHONE (414) 871-0860 • FAX (414) 871-7268

September 4, 1996

National Security and International Affairs Division
Mr. David R. Warren, Director
Defense Management Issues
United States General Accounting Office
441 G Street NW
Room 4A12
Washington, D. C. 20548

Dear Mr. Warren:

RE: Draft Report Disposal of Excess Zinc

With reference to the issue of disposal of excess zinc, we feel as follows:

The Stock Piling Act as discussed on Page 4 is "to avoid undue disruption of the usual markets of producers, processors and consumers of such materials". This does not give exclusive protection to the producers but in the same sentence gives equal protection to consumers. For the AZA to argue that the government has to look after the interest of the producers only, is not the full intent of the Act.

Moreover, there is no discussion about the specific grades of zinc, only the commodity of zinc.

We feel that the DLA should continue to sell zinc from the stockpile not only on a monthly basis, but also should request bids for long term sales.

Sincerely yours,

Myril Manhoff,
Senior Vice President

Now on p. 3.

TRADEMET INC.

26 Oak Lane • Scarsdale N.Y. 10583
Tel: (914) 723-4318 Fax: (914) 472 - 0635

Aug. 7, 1996

General Accounting Office
441 G Street N.W. Room 1012
Washington DC 20001

Attention : David Warren, Director Defense Management Issues

Disposal of Excess Zinc

Dear Mr. Warren:

I thank you for sending me a copy of your Draft Report and I would like to make a few comments.

Apparently the AZA has made an issue of the DLA selling zinc at below LME values in 1993 and 1994 . During this period SHG zinc was being delivered to the LME warehouses in the U.S. at LME flat . Therefore the sellers of this zinc, ie North American Producers, were also selling at below LME values basis FOB their smelters.

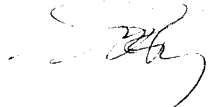
The issue confronting the DLA is to determine the fair market value for the grade of zinc they are selling basis FOB depot net cash in comparison with a producer price which is offered on a delivered net 30 day basis. It is not an issue of a premium or a discount to the LME values. The producers will always complain that their competitors are selling too cheap.

Although, I do not at times understand why the DLA does not award more material at a particular price, I feel that they have done an excellent job in a very difficult environment .

I believe that the DLA should be more aggressive when premiums are increasing and conversely more conservative when premiums are decreasing . The sooner the stockpile is disposed of, the better it will be for the overall market.

Kindest Regards,

M. P. Schwarz



RYAN'S NOTES

One Fifth Avenue
Pelham, N.Y. 10803

Phone: 914-738-7386; Fax: 914-738-3843

Aug. 26, 1996

David R. Warren
Director
Defense Management Issues
US General Accounting Office
Washington DC. 20548

Dear Mr. Warren:

After carefully reviewing your report on DLA's disposal of excess zinc, I find nothing to quibble about. Your first position that DLA should consider the total zinc market rather than just the PW and HG markets is correct. Zinc units are zinc units. In August, North American SHG zinc premiums substantially increased along with interest in the DLA zinc sales program. If the SHG and PW/HG markets were not related, this would not occurred.

In regards to disturbing the zinc market, DLA's sales or lack of sales will undeniably have an impact on the market. But so will everything else. Instead of viewing the sales for their negative impact, DLA is performing important functions of supplying the market with zinc units, raising money, and saving money that would otherwise gone for storage and warehousing costs.

The one area that you touch on but didn't directly comment on was DLA's sales methods. If DLA were to switch most of its zinc sales to a long term basis, most of the zinc producing industries opposition would probably dry up.

DLA zinc is a fact of life. It won't go away, and some sectors in the US zinc producing industry will protest regardless of when it is sold and under any circumstances. The current debate only proves that the US government should not be in the stockpile business and should get out of it as soon as possible.

Sincerely,



Patrick Ryan
Ryan's Notes

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
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Reginald L. Furr, Assistant Director
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