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## Introduction

Mr. Chairman, Ranking member Grijalva and members of the sub-committee, my name is Shelley Stewart, Jr. I am Senior Vice President of Operational Excellence and Chief Procurement Officer for Tyco International, USA. I also serve on the Board of Directors for the Institute of Supply Chain Management and am Chairman of Howard University's School of Business Supply Chain Advisory Board. At Tyco, I am responsible for 25 billion dollars in global procurement spending and I lead the company's efforts to reduce cost and increase efficiency.

Tyco International is a global, diversified company that provides vital products and services to customers in four business segments: Electronics, Fire & Security, Healthcare and Engineered Products & Services. With 2005 revenue of \$40 billion, Tyco employs approximately 250,000 people worldwide. Tyco operates in all 50 U.S. states and in more than 100 countries worldwide. In the U.S. we have 85,000 employees all of whom share an extraordinary commitment to excellence and to the communities in which they live and work.

From the operating room to the boardroom, Tyco offers the products and services the modern world needs to grow. Tyco fills an incredibly wide range of the many diversified needs of businesses and governments, educational and medical institutions, and commercial industries ranging from food to automobiles. For example, the connectors in your cell phones and computers, the many security access control systems used throughout Washington, and the sprinklers installed in the ceiling for fire suppression are likely Tyco products.

On behalf of Tyco International, I would like to extend my appreciation for the opportunity to testify regarding global copper prices and its impact on "end users," like Tyco, who use this commodity to manufacture goods used by people across the world. We appreciate the committee opening a dialogue on this issue and hope to be a valued resource as you continue to examine it.

## Tyco and Copper

From architecture to telecommunications, copper is in numerous products we rely on each day. Not surprisingly, copper is a vital component to literally thousands of Tyco products, sometimes serving as a major cost driver of producing those products. Out of the \$10 billion that Tyco spends annually on direct materials –materials that go directly into the products we manufacture—copper now accounts for nearly 7%, up from 4.5% just last year. Copper wire, cable and tubing are used in commercial and residential installations of ADT and Simplex/Grinnell access control, home security, fire suppression and detection devices. These devices are essential to keeping families and businesses safe and secure.

Our Engineered Products division also uses copper to manufacture industrial, commercial and residential applications, providing solutions from floor heating, snow melting and de-icing to temperature measurement, wiring and leak detection systems. The AFC Cable business unit utilizes copper to manufacture electrical distribution products used in the construction and modernization of commercial office buildings, institutional facilities, shopping centers, and multifamily dwellings.

Most significantly, Tyco's electronics business uses copper in the millions of electrical connectors we manufacture. In fact, Tyco's electronics division alone purchases nearly 50 million pounds of copper each quarter. These connectors are found

in many products including automobiles, computers, televisions, mobile phones and other consumer electronics.

For our products that require copper, there is no alternative metal. Copper offers unique formability, conductivity, and stress relaxation not available in other metals.

## The Price Problem

There is an old adage that a “penny saved is a penny earned.” And in today’s world of rising metal prices, pennies, or more accurately, copper, is becoming a precious commodity that has a tremendous impact on savings and earnings.

Since 2003 the price of copper has risen more than 350 percent. Prices have risen more than 62 percent since February of this year. And, in all likelihood they haven’t peaked yet.

Several factors have contributed to this steady rise in prices. Labor disruptions in Chile and Mexico and political unrest in Indonesia that is threatening copper production has caused price increases. Heavy demand and consumption of copper in Europe and China has created shortages, thus driving up costs. And, interestingly, Hedge Fund investments in the metals market, including copper, are extremely heavy due to the weak dollar, again driving up the price of these commodities.

Soaring copper prices are also a reflection of a healthy and robust economy driven by increased manufacturing and construction both domestically and abroad. However, we believe other factors such as dwindling supplies and speculative buying from Hedge Funds have influenced the copper price. Congress and the Administration should be applauded for enacting economic policies that have fueled such growth.

Yet, this growth coupled with the other factors I have outlined has stoked the demand for copper to a point where the increased cost is negatively affecting businesses and consumers. Drastic changes in the weighted average price of copper, as we have recently seen, disrupt business planning and revenue forecasts. Whenever possible, these cost increases are often passed on to our customers in the form of surcharges, indexed pricing and direct-to-customer billing of subcontracted material. And, whatever is not passed on to consumers ends up negatively impacting companies bottom lines -- adversely affecting investors, stock holders and employees.

Earlier this month, as Tyco reported quarterly profits, we adjusted our full-year earnings forecast. Soaring copper prices contributed greatly to this adjustment. In 2005, Tyco purchased more than \$468 million dollars worth of copper on the global market, equaling nearly 280 million lbs. This year, purchasing the same volume of copper at the current price will cost the company \$681 million, for an estimated year-over-year spend increase of \$213 million, or 46 percent. Put into perspective, Tyco’s copper cost increases above the previous year’s average, or as we call them “headwinds”, for 2005 was \$73 million. In 2006 we will nearly triple that, incurring cost increases amounting to almost \$60 million per quarter. For example, in Tyco Electronics alone we have nearly reached our \$285 million budget for copper spending in the first 5 months of 2006.

These significant investments in copper cannot be underestimated and the staggering surge in copper prices impacts Tyco’s competitiveness in the worldwide market.

Moreover, these high costs also put pressure on our medium to small suppliers. Therefore, they are turning to Tyco for help by proposing price increases and shorter payment terms to get money in the near-term to finance copper or to offset their higher finance costs.

As Tyco’s Chief Procurement Officer and head of Supply Chain, it is my responsibility to manage the total cost of the goods and services Tyco needs to manufacture its thousands of products – products that are vital to millions of people in the US and around the world. Though the markets for commodities such as copper and other metals often fluctuate, periods of sustained and substantial increase make it very difficult for my organization to manage costs. This impacts our ability to develop our overall product and pricing strategy, as well as our ability to accurately predict our financial results, which is a strong expectation from our shareholders. Sky rocketing raw material costs also make it difficult to avoid increasing prices for our own products. Eventually, whether these products are for residential, commercial, or industrial uses, it is the consumer that will ultimately end up absorbing the increase.

## Conclusion

While there are several contributing factors to the high price of copper, the underlying market issue is more than likely supply and demand. Is there enough copper today to meet demand and what does the future hold for copper producers and

suppliers? Do we have enough copper? Are there enough suppliers to satisfy potential future demand? I will leave these questions to the experts. But I do know that as a consumer, I am highly dependent upon copper products in virtually every hour of my modern life, from the computer I used to prepare this statement to the car I drove to get here to be with you today.

The world cannot afford for companies to be hamstrung with high copper prices. Especially, when companies like Tyco International are using copper to manufacture products, or components to products, that are so vital to our everyday lives.

As this committee continues to examine the impact of copper prices on consumers and business I hope that you will keep today's testimony in mind. On behalf of Tyco International I ask that you consider the true impact of copper prices on our company and the thousands of products we make.