Hearing on Examining Financial Holding Companies: Should Banks Control Power Plants, Warehouses and Oil Refineries?
Senate Committee on Banking Financial Institutions and Consumer Protections

Statement of Tim Weiner
Global Risk Manager, Commodities/Metals
MillerCoors LLC

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Good morning Mr. Chairman and members of the Committee. My name is Tim Weiner. I am the Global Risk Manager of Commodities and Metals for MillerCoors, a U.S. brewing company headquartered in Chicago, IL.

MillerCoors employs 8,800 people here in the United States, working in eight breweries in Irwindale, CA, Trenton, OH, Eden, NC, Fort Worth, TX, Albany, GA, Elkton, VA, Golden, CO, and Milwaukee, WI. We also operate the Leinenkugel's craft brewery in Chippewa Falls, WI, and the Blue Moon Brewing Company in Denver, CO. We sell our products in all 50 states and we contract brew for export through associates. MillerCoors insists on building its brands the right way: through brewing quality, responsible marketing, sales, environmental and community impact.

This year, MillerCoors will brew and ship in excess of 60 million barrels of beer within the United States. Our company will package about 60 percent of that beer in aluminum cans and aluminum bottles. That's the equivalent of about 4,000 747 jumbo jets worth of aluminum each year. Beer in aluminum containers has a long history within our company. In fact, Bill Coors invented the seamless two-piece aluminum container in 1958 and started the first aluminum can recycling program 55 years ago.

To make our cans, we need aluminum – a lot of aluminum. In the extensive portfolio of commodities that we manage, aluminum is our single largest price risk. That risk, and the importance of aluminum to our business, is why I am here today. As a representative of MillerCoors, I will share with you my company's concerns about the warehousing practices conducted by members of the London Metal Exchange (LME). I will explain how the LME's rules allow those unfair practices to impact U.S. manufacturing. I will explain why U.S. legislators and regulators, including the Federal Reserve, should strengthen their oversight of bank holding company activities, which are creating an economic anomaly in the aluminum and other base metal markets.

Mr. Chairman, my statement is neither an indictment of free market principles nor the existing exchange traded futures system here in the U.S., which we use regularly to hedge our commodity price risks and volatility. In fact, our hope is the LME system could one day function as transparently and efficiently as the exchanges here in the U.S.

Before I begin, my concerns are not unique to MillerCoors or even the beer industry. MillerCoors is just one of a number of companies that purchase aluminum for the production of a number of everyday products used by Americans, from beer and soda cans to automobiles and airplanes. MillerCoors is joined in airing its concerns about the LME by a range of companies from a variety of business sectors, including The Coca-Cola Company, Novelis, Ball Corp., Rexam, Dr. Pepper Snapple Group, D.G. Yuengling Brewing Company, North America Breweries, Rogue Brewery and Reynolds Consumer Products to name just a few.

The risk management team at MillerCoors also manages the risk for the other commodities we use to brew beer and the energy to power our eight breweries. Those include barley, corn, natural gas, electricity to fuel our breweries and diesel fuel for our trucking operations. We spend billions of dollars annually on these commodities, and must manage the risk of price fluctuations to be an efficient brewer. In order to properly manage this risk, we created strict governance in the form of a commodity risk policy that clearly forbids speculation in our hedging program, as we are not a trading operation.

Historically, consumers and suppliers purchased aluminum directly from aluminum producers. The LME was always a market of last resort – where aluminum producers would go to sell their stock in times of oversupply and where aluminum users would go to buy metal in times of extreme shortage. This is a key function of all exchanges. However, Mr. Chairman, over the past few years, the market for aluminum and other base metals has drastically changed. My company and other manufacturers can no longer plan to buy the aluminum we need directly from aluminum producers.

I am not an expert in the Bank Holding Company Act, but I understand under that statute, the Federal Reserve has the authority to decide whether commercial and physical commodity activities like the LME warehouses are appropriate lines of businesses. Under this Federal Reserve exemption, U.S. bank holding companies have effective control of the LME, and they have created a bottleneck which limits the supply of aluminum. Aluminum prices in general and for can sheet in particular have remained inflated relative to the massive oversupply and record production. What's supposed to happen under these economic conditions? When supplies rise while demand is flat to down, prices should fall.

Instead, what's happening is that the aluminum we are purchasing is being held up in warehouses controlled and owned by U.S. bank holding companies, who are members of the LME, and set the rules for their own warehouses. These bank holding companies are slowing the load-out of physical aluminum from these warehouses to ensure that they receive increased rent for an extended period time. Aluminum users like MillerCoors are being forced to wait in some cases over 18 months to take physical delivery due to the LME warehouse practices or pay the high physical premium to get aluminum today. This does not happen with any of the other commodities we purchase. When we buy barley we receive prompt delivery, the same with corn, natural gas and other commodities. It is only with aluminum purchased through the LME that our property is held for an extraordinary period of time, with the penalty of paying additional rent and premiums to the warehouse owners, until we get access to the metal we have purchased.

What's most concerning is that all the key elements of the LME (ownership/warehousing/ policy control) for aluminum and other base metals worldwide, are controlled by the same entities – bank holding companies.

The practical effect of these LME warehouse rules is to essentially create a funnel, with a wide end at entry and a very narrow end exiting out. At the wide end, there is a massive supply of metal going into these warehouses, at the rate of tens of thousands of metric tons per day. At the narrow end, the LME warehouses, such as those in Detroit, use minimum load-out rates as maximums, releasing no more than 3,000 MT/day. Just imagine a warehouse with a big garage door marked "in" and the small front door of your house marked "out." A lot more metal goes into the warehouse than comes out. U.S. manufacturers want to take possession of their metal, but cannot because the LME rules allow the warehouses to collect rent for every day, month and year that the aluminum sits in these LME warehouses. The current system does not work. It has cost MillerCoors tens of millions of dollars in excess premiums over the last several years with no end in sight. My company and others estimate that last year alone, the LME warehouse rules have imposed an additional $3 billion expense on companies that purchase aluminum.

As I stated earlier, my job is to reduce commercial risk associated with our business. We are challenged in managing our aluminum costs due to these LME warehouse practices. Aluminum prices have become inflated and this flows directly through to the price of can sheet.

Let me restate one very important point. Although the LME has ordered strict minimum release requirements for warehouses controlled by LME members, those minimums are being treated as maximums and continue to restrict the flow of metal out to the market. No matter what the markets demand, the approved LME warehouses only release the minimum required amount of metal each day, which is public record. This only increases the length of the queues waiting for delivery. The warehouses are not responding to ordinary supply/demand market conditions in part because of two things.

1. The fact that the bank holding companies that are members of the LME also comprise the LME Warehouse Rules and Regulations committee and also own a number of LME-certified warehouses. This structure is unprecedented in other global futures exchanges. Specifically, the largest LME principal through December 2012 was Goldman Sachs, which through its ownership of Metro International Trade Services owns one of the largest warehouse complexes in the LME system. They control 29 of the 37 warehouse locations at the LME approved warehouse site in Detroit. This site houses approximately one quarter of the aluminum stored in LME facilities globally and over 70% of the available aluminum in North America. Henry Bath (100% owned by JPMorgan), Glencore and other trading companies also own LME warehouses.

2. There is no clear “regulator” or oversight of the London Metal Exchange warehouses, the LME itself is a self-regulated entity. In addition to direct talks with the LME, both formal and informal, we have urged regulators in the United States, the United Kingdom and the European Union to give thoughtful consideration to the effect of LME business practices on the industries that rely on a supply of aluminum priced by reasonable market conditions. Specifically, we have asked the UK Financial Services Authority (recently reorganized as the Financial Control Authority) and the CFTC to regulate the LME system as it pertains to the commodity metals market. Both agencies have indicated they are uncertain whether they have the regulatory authority necessary.

On the commercial side, my company and other aluminum users have attempted over the last year to resolve our concerns directly with the LME. We offered up sensible and reasonable recommendations to expedite and improve the current LME business practices and mitigate their adverse impact on aluminum purchasers. We specifically asked the LME to amend their rules to allow:

- A daily rental to be charged for a limited period following cancellation of a warrant (i.e. 30-45 days).
- A daily load out rate for each warehouse shed at each official site, rather than by company at an official site.
- A daily load-out rate by warehouse shed that would clear the queue within a reasonable period.
- A review and adjustment of load-out rates more frequently so that bottlenecks do not persist.

The LME dismissed our proposals. The changes they have made and recently proposed to increase the daily load-out rates are minimal and would seem to make no real impact, but we look forward to submitting comments on their proposed rule changes.

In closing, in the view of MillerCoors and other companies in similar situations, the LME's current practices must be changed. We simply ask for the same regulatory and legislative oversight of the LME that other U.S. futures exchanges receive in order to level the playing field and ensure a transparent balanced functional market for buyers and sellers. This oversight will restore the free market functioning of the LME, which will regain our confidence in the institution and permit us to successfully brew, ship and sell our fine beers.

On behalf of MillerCoors and any other companies adversely impacted by the practices of the LME, I thank the Committee for allowing me to appear and testify today. I am happy to answer any questions that you have.