

**STATEMENT OF**

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**ON THE**

**"COIN MODERNIZATION AND TAXPAYER SAVINGS ACT OF 2008"  
H.R. 5512**

**BEFORE THE**

**HOUSE FINANCIAL SERVICES SUBCOMMITTEE  
ON DOMESTIC AND INTERNATIONAL MONETARY  
POLICY, TRADE AND TECHNOLOGY**

**UNITED STATES HOUSE OF REPRESENTATIVES**

**MARCH 11, 2008**

Chairman Gutierrez, Ranking Member Paul, Members of the Subcommittee, I appreciate the opportunity to comment on the "Coin Modernization and Taxpayer Savings Act of 2008," HR. 5512. Greeneville, Tennessee-based Jarden Zinc Products has produced high-quality one-cent coin blanks to the United States Mint for over 25 years. In addition to our work with the United States Mint, we have provided coin blanks to over 20 countries and mints around the world. Our experience includes work with the Royal Canadian Mint and foreign countries producing copper-plated zinc and steel pennies, nickel-plated steel for high denominations, and expertise in electroplating coins with white-silvery, bronze and brass layers on various substrates, including steel.

We understand that a nation's coinage is a matter of national pride. It must be attractive and of extremely high quality. As a choice of many countries around the globe for their coinage needs, and as a company with experience in various coinage metals and alloys, we believe that Jarden Zinc Products is in a good position to comment on the conversion process, timing and cost issues associated with H.R. 5512. Each of these items is discussed below.

#### COINAGE COSTS AND TAXPAYER SAVINGS

Today, countries around the world are concerned about the cost of producing quality circulation coins, especially when the cost to produce their coins approaches or exceeds the face value of the coin. Historically, zinc has been a cost effective material which requires less energy/kg to produce and requires no annealing. Until very recently, the penny had cost between 0.7 to 0.9 cents to produce, so the U.S. Treasury "earned" roughly 0.2 cents on each penny minted. From 1982 to 2006, this profit or seigniorage earned the Treasury over \$800 million.

In late 2006, as has been widely reported, we witnessed an unprecedented rise in metal prices caused by market speculation, increased global demand, and supply disruptions. While the price per pound of zinc has dropped almost 50% from those historic highs in late 2006, the cost to produce the penny and nickel still exceed their face value.

We believe it is wise to explore various options to make coins more cost effectively and look forward to working with Congress during these important discussions. Jarden Zinc Products does not oppose changing the metal content of U.S. coins to achieve lower costs. We do, however, have concerns with the short proposed timeframe for conversion to a copper-plated steel (CPS) penny contained in H.R. 5512 and discussed in more detail below.

#### TIMEFRAME FOR CONVERSION TO A STEEL PENNY

The 180-day timeframe for conversion to a steel penny contemplated in H.R. 5512 simply cannot be met. We should know. We developed the process for converting to the current copper-plated zinc penny in 1982. Also, on a small volume basis, we produced copper-plated steel for the Royal Canadian Mint and were a strategic partner in the introductory phase for the European Union series.

During the proposed 180-day period for conversion to a steel coin, the Mint needs to determine the specific coin alloy, gauge, upset design, and plating thickness. Based on those specifications, a company would have to determine what equipment and process is necessary to produce the coin. Major differences exist between the production of copper-plated steel and copper-plated zinc. Copper-plated steel requires more processing steps than copper-plated zinc and those measures impact the type and amount of additional equipment required. Jarden Zinc Products does not have the necessary equipment today to produce large volumes of copper-plated steel. In our own situation, we would need to request capital from our parent corporation to purchase equipment.

A capital equipment purchase would be followed by significant time developing a supply chain and production and quality systems. I discuss these tasks in more detail below, but in our experience, it would be impossible for any company to meet the statutory deadlines contained in the bill. As noted, our CTS experience in Canada was with a low volume of coins and at 25 microns copper plating thickness. Based on the Canadian experience, we believe the tasks for penny conversion in the U.S. include:

1. Mint Product Design. The Mint must determine the coin specifications, including the type of steel and plating thickness. There are many factors that affect the final blank design that are incorporated into the process design. Depending upon volumes required, plating thickness and other design parameters, time estimates could vary. However, the timeframe for product development is driven by the Mint - timing unknown.
2. Process Development. Once the Mint completes the final blank design, a company can pursue process development — approximately 5 months.
3. Capital Investment Analysis. As the final variables are defined, a company would be in a position to formulate costs, construct an investment analysis, and make a capital equipment purchase decision — 3 months.
4. Supply Chain Development, Equipment and Facilities, Production Systems, and Quality Systems Modification and Development. Upon a corporate investment decision, a company could formally approach vendors to finalize purchase agreements, formulate contracts, have equipment built and delivered, modify facilities, install equipment, and modify/develop internal management systems to accommodate the new product and processes — 10 months.
5. Start-Up and Ramp-Up to Volume Production. Once equipment is in place and operational, a company would begin start-up operations and continue to refine processes as they ramp-up to volume production — 3 months.

As noted in the above task outline, a 180-day conversion is not realistic.

#### CHANGE PROCESS: FIVE YEAR LOSS TEST FOR COINS

Apart from the penny composition change, we believe that some of the language in HR. 5512 will make any change in composition to the 5-cent coin and other denominations difficult. Since the nickel is costing the government more than the penny, we would hope the Financial Services Committee would pursue ways to save money on the nickel with equal vigor. Accordingly, the factors for the Secretary to consider in prescribing coin composition seem to be overly prescriptive. In particular, to suggest that new coin materials work "without interruption in current coin acceptance equipment without modification" seems to preclude any metal change in our current coins at all. How can the Mint move to a lower cost, alternative metal without some "modification" of the coin acceptance equipment?

Of greater concern, the prohibition on any coin change until five sequential years of negative seigniorage seems quite long. Considering 2008 as a loss year, why should taxpayers pay for an additional two years loss against the nickel when the push to convert the penny is immediate? We appreciate the consideration in H.R. 5512 that once a company has made an investment in a new

process, there will be some timeframe for that investment to continue uninterrupted. However, the legislation as written seems to make it difficult to get to that lower cost nickel in the first place.

## CONCLUSION

Our greatest concern is that the debate over how to make our coins more cost effective should not embolden penny opponents to push for penny elimination. The alternative to the penny, rounding transactions to the nickel, is a nonstarter for consumers. Under the current economic climate, elimination of the penny would automatically increase inflationary impacts during a period of recessionary pressure and a weakening dollar. Rounding affects purchases from the gas pump to the grocery store. In addition, Americans overwhelmingly want to keep the penny, 70% of Americans support keeping the coin. And finally, no one has explained how we would replace millions of dollars raised by penny charitable drives every year if we didn't have the penny. Notable charities like Ronald McDonald House Charities and the Leukemia & Lymphoma Society rely significantly on small, yet critical, penny contributions.

Jarden Zinc Products has a long history working with the Mint to meet coinage needs of U.S. businesses and consumers. We look forward to working with the Subcommittee and the Mint to explore various options for making coins more cost effective.