

TESTIMONY of MEG McDONALD of ALCOA INC.

before

U.S. HOUSE OF REPRESENTATIVES

**COMMITTEE ON ENERGY AND COMMERCE AND THE SUBCOMMITTEE ON ENERGY
AND ENVIRONMENT**

Hearing on

**“THE AMERICAN CLEAN ENERGY AND SECURITY ACT OF 2009”
APRIL 22, 2009**

Mr. Chairman and Members of the Committee:

Thank you for your invitation to testify today as a member of the United States Climate Action Partnership, or USCAP.

My name is Meg McDonald and I am Director, Global Issues of Alcoa Inc.

I am here today to express Alcoa's support for comprehensive climate change legislation this year. We and others in USCAP have welcomed the comprehensive approach taken in the American Clean Energy and Security Act (ACES). We believe climate change is a critical global issue which requires leadership and immediate action from every sector of society.

Alcoa is one of the world's largest producers of aluminum and alumina. We are active in all segments of the industry - from mining, refining and smelting to rolling and extrusions, with some 85, 000 employees in 34 countries.

The majority of our manufacturing base is here in the United States and two thirds of our smelting capacity.

The current global economic situation has meant significant and difficult changes in that manufacturing profile here in the United States and elsewhere.

Aluminium is a globally and heavily traded energy- intensive commodity for which the global price is benchmarked according to the London Metal Exchange. Since last June, we have experienced dramatic drops in global demand and the price of aluminum has dropped by more than 60%.

Alcoa has put in place a detailed plan to weather the economic storm and emerge stronger when the economy recovers.

The energy intensive nature of primary aluminium smelting has meant that the location of aluminium production is driven by energy costs. This has also meant that the industry has been a leader in energy efficiency.

We also believe that aluminium is part of the solution to climate change because of its properties of light-weighting for transport solutions and because of its infinite recycling potential.

Since 1990, Alcoa reduced our direct greenhouse gas emissions by 36 percent.

And that's despite a significant increase in production over that same period.

I am here to testify today about how we believe an economy-wide cap-and-trade program as part of a comprehensive U.S. climate program can be constructed so as to minimize the impact on the economic competitiveness of US business as we make the transition to a lower carbon economy.

There is a broad consensus that the leakage problem must be solved to achieve effective climate change legislation and we and our USCAP colleagues look forward to working with the committee achieve this.

Never has there been such a critical time for us to be focusing on this issue as many businesses, our workforce and our communities confront the very difficult challenges created by the current economic downturn.

During the evolution toward a comprehensive global emissions trading regime, transitional arrangements for energy intensive trade exposed sectors will be necessary to protect our competitiveness. This will be essential to protect the employment and contribution to the US economy that industries such as aluminium, steel, chemicals, glass and paper represent.

We think the best way of doing this is through the allocation process and additional complementary measures.

USCAP has set out our detailed thinking on the importance of inclusion in climate change legislation of additional cost containment measures such as

1. offsets and banking
2. technology program
3. international linking and
4. movement to a global system

Importantly, we believe there should also be specific credit for early action by companies, such as ours, which have been reducing emissions voluntarily.

Alcoa, as a member of USCAP believes that a cap-and-trade program that follows this approach will be successful in reducing emissions whilst avoiding shifting jobs, investments and emissions from the U.S. to other nations. This sort of leadership by the United States is essential for setting the stage for reaching global agreement on climate change.

We also believe that a climate change framework established on this basis will bring a new vision and policy direction which will spur innovation through the economy. We think if we act wisely and swiftly, this will assist in restoring growth and provide the means for America to be the global leader in low-carbon technology.

Within such a legislative framework with market signals and incentives, the American entrepreneurial spirit will deliver the sustainability solutions required to meet our many economic, energy, environmental and national energy security challenges.

Chairman Waxman and Markey, Alcoa joins our other USCAP colleagues in looking forward to working with you, the Subcommittee and the Committee in your objective of reporting a

comprehensive and effective energy and global warming bill to the United States House of Representatives by Memorial Day.

Thank you for the opportunity to testify and I would be pleased to answer any questions that you may have.