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The Aluminum Association

March 19, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515-6115

Dear Mr. Chairman:

The Aluminum Association welcomes the opportunity to address your letter of February 27, 2007 with regard to a number of questions on climate change legislative issues. We hope to participate in the discussions on climate change and in your efforts to address this important issue.

The aluminum industry has been an active participant in efforts to reduce green house gas (GHG) emissions since the early 1990s, including domestic and international efforts. In 2002, the aluminum industry participants in the EPA Voluntary Aluminum Industrial Partnership (VAIP) received the EPA Climate Protection Award for our GHG reductions of perfluorocarbon (PFC) gases from primary reduction plants. Participants included 98 percent of the primary aluminum industry in the U.S., and the members of the VAIP reduced PFC emissions by about 50 percent from 1990 to 2000. Since 2000, the industry has participated in the United States Climate Vision program, reducing overall direct carbon dioxide equivalent emissions (TCE emissions per ton production, including direct CO2 and PFC emissions) from primary reduction plants by 56 percent from 1990 to 2005. These achievements were made without including credits from industry production curtailments. More recently, the Aluminum Association has become a founding participant in the Asia Pacific Partnership with the U.S. government to promote GHG reductions and clean development with six participating nations.

While the aluminum industry has achieved these GHG reductions under a sector-specific voluntary program, we also recognize that climate change presents a challenge that requires a global response that includes international participation. As a result, we are supportive of legislative efforts to address climate change, including a market-driven approach that may include a cap-and-trade program that limits GHG emissions. We offer the following responses to your questions enumerated in the February 27th letter to outline our position on climate change legislation.

1.a. Emissions of GHG and the consequences of climate change:

The Aluminum Association believes that climate change is an important issue meriting global GHG reductions, and has worked to reduce GHG emissions since the early 1990s. We believe that effort should be made on a national, economy-wide level to reduce GHG emissions. We also believe that U.S. manufacturing accomplishments in this vein should be done on a level-playing field with other GHG-emitting countries that compete with the U.S. for imports, exports, and manufacturing jobs.

1.b. The effects on the U.S. economy, consumer prices and jobs:

Our greatest concern over possible climate legislation is its possible negative impact on domestic manufacturing competitiveness, primarily through higher energy costs. The U.S. aluminum industry has dropped since 2000 from the number-one world producer of primary aluminum to the fourth largest, now behind China, Russia and Canada.

From 2000 to 2003, U.S.-combined Primary Metals industries lost 23% of their workforce (140,000 jobs), compared to 15% for all U.S. Manufacturing (2,600,000 jobs). High and unstable electricity prices are the primary factor in these losses. For the aluminum industry, with about 100,000 workers, fair access to affordable and reliable energy is key to competitive U.S. manufacturing.

For national climate legislation to work on a level, international playing field, performance-based measures should be included within market-based solutions for all competing nations and market participants. Legislative factors should be designed to allow for responsible growth of all related manufacturing and energy sectors, and should consider the climate-change benefits of recycling, R&D and new technology. Solutions to the climate change issue involve both reducing emissions at the source, and also over the full life-cycle of the materials and products.

2.a. Cap and trade options; which sectors and timing:

We believe that should a trading program be adopted, it should be broad-based and economy-wide. It should provide emissions trading across as many sectors as can be reasonably implemented. This has the largest potential to reduce costs and improve the cost-benefit of the legislation. Implementation provisions in the legislation should guarantee credits for early emission reductions back to 1990 to reward those that can demonstrate and document past investment in GHG reduction. We strongly support credits for early emission reductions for documented programs, including the EPA VAIP and Climate Leaders programs.

The aluminum industry has advanced aluminum recycling over the last several decades. As a result of improvements, recycled aluminum now saves about 95 percent of the energy and GHG emissions per unit of production as compared to primary aluminum production. Advances in recycling have also resulted in improved metal recovery and reduced waste. A sector-wide legislative approach for aluminum GHG-intensity that recognizes the benefits and provides incentives for recycling would further reduce GHG emissions and energy use while allowing the aluminum industry to meet society's increasing need of aluminum applications.

2.b. to 2.m. Specific questions on implementation, economic sectors, intensity vs. total emissions, timing, allowances, early reduction credits, gases included, safety valves, offsets, technology, and country participation:

The Aluminum Association believes that any climate legislation enacted should make clear that emissions trading can occur between and within sectors, should guarantee early reduction credits, and may need to address issues such as tax credits and a safety valve for CO2 credit costs to address economic concerns. Any approach needs to consider and address local cross-sector and international sector competitiveness issues. In addition, sector-specific considerations and allowances should be developed to address issues such as GHG reduction feasibility, past performance in reducing emissions, and cost impacts and the life-cycle climate impacts and benefits associated with the full manufacturing supply chain and products supplied. In our view all relevant GHG compounds should be included in such a cap and trade effort, if adopted, based on CO2 equivalent or carbon-equivalent emissions calculations.

We believe that the manufacturing sector, which has reduced total GHG emissions from 1990 to 2005, has demonstrated that the U.S. has the capability of reducing GHG emissions effectively. Under programs such as the VAIP and Climate Vision along with other measures to improve efficiency and reduce emissions the manufacturing sector in the U.S. has been able to achieve an overall reduction in GHG emissions.

The Aluminum Association encourages consideration of approaches to reduce the impact of climate legislation on energy costs, especially to U.S. manufacturing. Estimates we have seen predict as much as a 20 percent increase in electricity costs or more from climate legislative impacts. Similar cost increases for natural gas have already negatively affected downstream aluminum manufacturers. Energy affordability and reliability for manufacturing should be made a high priority of the climate legislation, including potential approaches such a corporate tax credits or energy offsets. Legislation should result in a Federal program rather than an un-predictable "patchwork" of state programs.

We also believe that the ultimate solution to GHG emissions and climate impacts is through technological advancement. Therefore, legislation should provide a mechanism to encourage technology R&D, and reward efforts to implement technological innovation.

With regard to developing countries and efforts to include them in future GHG efforts, we are concerned that GHG emission increases of developing nations, especially in China and India, can offset any progress in the U.S. and elsewhere. Therefore considerable effort is needed to engage those countries in a global system to address climate change. Given the stated position of India and China to not adopt a Kyoto-like cap on total emissions, we have been working with the U.S. government to engage them through the Asia Pacific Partnership in an effort to reduce GHG emissions and promote clean development projects. The Asia-Pacific Partnership currently includes the nations of Australia, China, India, Japan, Korea and the United States.

3. How well are authorities functioning with regard to voluntary or mandatory actions, and lessons learned:

In our experience, the U.S. EPA has done an excellent job in developing and administering the VAIP program with the aluminum industry. Included in the VAIP has been the reporting framework for PFC emissions, targeted reduction levels, PFC monitoring and measurement methods development, and research on the physical-chemistry of PFC formation with MIT. This program has worked well and should be considered as a model for future efforts.

4. Integration and timing of domestic requirements with future U.S. and international (UN) obligations on Climate Change:

Developing nations and WTO Trading Partners should adopt fair, comparable performance-based emissions reduction programs to achieve global climate change progress, and preserve U.S. manufacturing competitiveness. Global “leakage” of GHG would result if high-emitter countries benefit through trade and economic advantages, but are not held to performance-based responsibilities.

One possibility for the climate legislation to engage developing and trading-partner countries is to pursue agreement through forums such as the Asia-Pacific Partnership. A global cap & trade system could encourage GHG emission reduction progress and potentially reduce the economic impact of the domestic program.

5. Steps taken by our industry to reduce GHG emissions:

As outlined in this letter, the aluminum industry has successfully implemented the voluntary VAIP program. In addition, like all manufacturing sectors, we have pursued

efforts to improve energy efficiency and recycling. As a result overall direct GHG emissions for the aluminum sector have been reduced since 1990, and indices for energy use, such as primary pot cell current efficiencies, have improved dramatically. In addition, the industry has pursued aluminum recycling vigorously, such as for used beverage cans, building & construction and auto. These efforts have resulted in an overall aluminum sector reduction in GHG emissions of approximately 40 percent based on a combination of reduced GHG emissions, energy efficiency gains and recycling efforts.

We hope that the positions and information included in this letter is useful to you and your colleagues in addressing climate change legislation and we look forward to the opportunity to further address this important issue in the future. Should you have any questions or desire to arrange a meeting to further discuss our response, please contact me at your convenience.

Sincerely yours,

J. Stephen Larkin
President

cc: The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality

The Honorable Joe Barton
Ranking Member
Committee on Energy and Commerce

The Honorable J. Dennis Hastert
Ranking Member
Subcommittee on Energy and Air Quality