



KLAUS KLEINFELD – McCloy Lecture
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Klaus Kleinfeld is CEO of ALCOA.

People have short memories and we will remake old mistakes. But there will soon be new ones to make. We will have 3 billion more people. 60% of them will live in urban settings. This will change the world significantly and present us with new challenges.

Among these are heat (global warming), lack of water and increased levels of CO₂, as well as pandemics and increased social tensions.

Governments are facing new problems: issues of sustainability (not just short term solutions) and social stability. Connected to the stability issue are jobs and health care. Many of the problems can no longer be solved on a government by government level and require global solutions. The expansion from G-8 to G-20 is a good step. The revitalization of international organizations like the UN, the World Bank, etc. (post Bush) is also a good and important development. The recent Pittsburgh G-20 meeting produced good results which have been underreported.

The market has gone through a major malfunction. The response of the US government has been a success.

We will see an international power shift. China is moving from small, manufactured goods to a knowledge-based society. The Middle East has transformed itself from a society in which very, very few citizens spent huge amounts in places outside the Middle East to one where people 35-40 are making decisions to build up a real local economy and infrastructure.

Brazil has come out of the economic crisis very quickly. As part of a global business, KK has to conserve cash, but the Brazilians are clamoring to invest, invest, invest. "They live on a different planet!"

KK was remarkably critical of Wal-Mart. When the public started criticizing Wal-Mart's employment policies, Wal-Mart didn't change them, it shifted the discussion to sustainability. Wal-Mart's decisions have effects all over the world – more than most governments.

In considering sustainability, KK noted more extensive use of aluminum. 73% of all aluminum ever produced is still in use. And the use is not degraded. In contrast, when plastic bottles are recycled, they end up in mats for cheap carpeting, not more bottles. This was KK's ad for Alcoa.

KK foresees serious threats to executive compensation resulting from the market malfunction and is not happy, but he did not go into much detail.

KK mentioned a recent meeting with Jeff Immelt (CEO of GE), in which Immelt asked if he (Immelt) was the only American executive who ever goes abroad to try to sell product. American business managers simply do not think about exports or the world market. There is almost nothing written about foreign markets or affairs in the US press, so American executives will have to find another source for this information. KK said he had been asked by the White House to head the US side of the US-Russian Trade group. As a native German, KK takes this as a sign of the absence of US business leadership in this international area.

The US will not always be the most desired world market. (I have seen this in my own practice, as Germans turn their direct (plant) investments from the US to Eastern Europe and the BRICs.) China sold more cars than the US last year – over 12 million. And the Chinese car market has much more capacity for growth than the US. German car manufacturers have had to adapt to US tastes. The famous example is the cup holder. Germans could not imagine driving their cars and drinking coffee, soda or beer. But they finally changed their designs to fulfill American demands. Now even German cars for the German market have cup holders. Americans will begin to be offered cars that have features that the CHINESE want, because that will be the leading market.

KK met recently with Chinese leaders and was impressed. They questioned why they should be the world leader in solar panel production. These products take large amounts of energy and water, materials China needs to conserve. So the leaders want to cut down this work and have it done in counties with excess water and energy. KK found that global view to be remarkable.

Areas where KK sees opportunities are sustainability generally and life sciences in particular.

He predicts that the US recovery will be jobless. This will bring serious societal and governmental consequences.

In response to a question, he said that the US has the best universities in the world. Not just the top tier, but the next tier, too. (His daughter is 19 and they have been visiting US universities.) The trick is to attract the best minds in the world and then attract them to stay. Competition for these minds is ever greater. Other parts of the world now offer opportunities. Furthermore, the US has made it hard for these people to stay.

Asked about New York, he said he met at Citibank with twenty other NY based CEO's two days after 9-11-2001. He was the only one who praised New York and foresaw its recovery. He said it is a unique agglomeration of minds, capital, institutions, educators, financiers, advertisers and artists. He also thinks Mayor Bloomberg is the best mayor in the world.

NOTE: These are notes I took during the talk and in no way official.

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