SBE COUNCIL
Small Business & Entrepreneurship Council

Comments on Department of Energy Studies on LNG Exports

Submitted by
Raymond J. Keating
Chief Economist
Small Business & Entrepreneurship Council

January 22, 2016

As chief economist for the Small Business & Entrepreneurship Council, a 100,000-member nonpartisan, nonprofit advocacy, research and education organization that works to protect small business and promote entrepreneurship, I generally support the findings of the new Department of Energy study on LNG exports, as well as the October 2014 report, and ask for expedited approval of all LNG export applications still in the queue.

Private sector investment and innovation has transformed energy markets over the past decade, including by making the U.S. the largest natural gas producer in the world thanks to hydraulic fracturing and horizontal drilling tapping into energy resources previously thought to be inaccessible. For example, consider that natural gas proved reserves have increased by 75 percent from 2005 to 2014. Given this transformation, it follows that producers turn to the international marketplace, and that increased export opportunities will mean expanded U.S. production and growth.

Not surprisingly, study after study has confirmed basic, expected outcomes, including two recent studies done for the U.S. Department of Energy.

The October 2014 study ("Effect of Increased Levels of Liquefied Natural Gas Exports on U.S. Energy Markets") confirmed the basics that increased LNG exports will lead to increased U.S. domestic natural gas production, specifically, "higher natural gas production satisfies about 61% to 84% of the increase in natural gas demand from LNG exports." For good measure, it is noted, "Increased energy production spurs investment, which more than offsets the adverse impact of somewhat higher energy prices when the export scenarios are applied."

The second Energy Department study ("The Macroeconomic Impact of Increasing U.S. LNG Exports"), completed in October 2015 but just released in late December, comes to similar conclusions. That is, rising LNG exports will be "accommodated by expanded domestic production rather than reductions in domestic demand," and "overall macroeconomic impacts of higher LNG exports are marginally positive." There also is talk of a small positive impact on natural gas prices domestically.

Still, points about context and dynamism of markets must be acknowledged. For example, when talking about minor positive domestic price effects resulting from increased LNG exports, those impacts must be considered within the context of assorted other price factors. Consider, for instance, that the average price for natural gas in December 2015 was down by a breathtaking 85 percent compared with December 2005.

The unknowns of technological advancements also must be kept in mind. For example, it is correctly noted in the October 2014 report that "projections of energy markets over a 25-year period are highly uncertain and subject to many events that cannot be foreseen, such as supply disruptions, policy changes, and technological breakthroughs." In fact, the history of energy production and price estimates makes clear that technological innovation and advancements and their impact on discovery and production are always underestimated.

For good measure, the overwhelming majority of businesses doing the investing and innovating in the energy sector are small businesses – in contrast of political claims about so-called "Big Oil." For example, 90.7% of employer firms among oil and gas extraction businesses, 78.1% of drilling oil and gas wells businesses, 81.5% of firms among support activities for oil and gas operations businesses, 60.5% of oil and gas pipeline and related structures construction businesses, and 54.7% of firms among oil and gas field machinery and equipment manufacturing businesses have less than 20 workers.

Clearly, the energy industry is driven by small businesses, and of course, small businesses in general will benefit from the enhanced economic growth as a result to natural gas investments and exports. Again, the United States is now the largest natural gas producer in the world (as well as the largest combined oil and natural gas producer). It is accurate to conclude from the DOE studies that increased LNG exports would boost incentives for further natural gas production in the U.S. and bring additional benefits in terms of economic, employment, business and income growth across the United States.