LNGStudy

From: Karen Kerrigan [kkerrigan@sbecouncil.org]
Sent: Wednesday, January 23, 2013 10:49 PM
To: LNGStudy
Subject: 2012 LNG Export Study
Attachments: DOEComments_SBE Council_JAN2013.pdf

To Whom it May Concern:

Attached in the PDF document, please find comments regarding the 2012 LNG Export Study. If you can kindly let us know you are in receipt of these comments, I would appreciate acknowledgement. If you need these comments in another format, please let me know.

Thank you,
Karen

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Protecting small business, promoting entrepreneurship

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January 23, 2013

Comments to: U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585
Via email: LNGStudy@hq.doe.gov

From: Raymond J. Keating
Chief Economist
Small Business & Entrepreneurship Council

Re: 2012 LNG Export Study

On behalf of the Small Business & Entrepreneurship Council (SBE Council), we are filing these comments regarding the study conducted by NERA Economic Consulting, and contracted by the Department of Energy, titled "Macroeconomic Impacts of LNG Exports from the United States."

SBE Council is a nonpartisan, nonprofit advocacy, research and education organization dedicated to protecting small business and promoting entrepreneurship. With more than 100,000 members nationwide, SBE Council members count on an affordable and reliable supply of energy to operate and grow their businesses. As the Department of Energy is well aware, small businesses dominate the energy industry. And thousands of small firms throughout the country count on a vibrant and strong industry. Our members benefit from global trade, and many are active in international markets. Free trade supports economic and business growth, entrepreneurship and job creation – it is critical to our nation's prosperity and global competitiveness.

The study conducted by NERA Economic Consulting is an important one, given the unusual political efforts that have emerged recently to actually limit U.S. natural gas – that is, liquefied natural gas (LNG) – exports. When politics, special interests and government seek to interfere in the international marketplace, it's almost always about trying to somehow limit imports. However, in this case, a bewildering effort is underway to try to limit U.S. LNG exports.

It’s hard to believe that American interests are working to limit exports, given their critical importance to our economy and efforts by the Obama Administration to double exports by 2015.

International trade, of course, is mutually beneficial. It expands opportunity, enhances incentives for investment and expanded production, boosts competition, increases income and employment, and benefits consumers through increased choice, lower prices, and improved quality. Therefore, government limits on trade, such as via tariffs, quotas, and assorted regulatory obstacles and mandates, limit or reduce such benefits. These economic realities should be most glaringly obvious when it comes to exports.

Trade has become increasingly important to the U.S. economy. Consider, for example, that U.S. exports as a share of GDP are more than two-and-a-half times larger today than 50 years ago, with total trade (exports plus imports) more than three times larger. Another angle on seeing the importance of trade is the fact that growth in real exports equaled 28 percent of real GDP growth from 2000 to 2011, with total trade equaling a whopping 54 percent of overall growth.

In addition, it must be noted that international trade is not just the domain of very large firms. To the contrary, trade is very much about small and mid-size businesses. For example, the International Trade Administration has reported that 97.8 percent of U.S. exporters have less than 500 employees, and 97.2 percent of firms involved in importing also have less than 500 workers. Make no mistake, expanding trade – including, obviously, rising exports – is a huge benefit to smaller businesses.

On the energy front, advancements in technology have opened up vast resources of natural gas (as well as oil) in shale rock that were previously not accessible. As a result, natural gas prices have plummeted in the U.S. However, prices remain higher in other parts of the world, and therefore, the potential exists for economic benefits to be derived from exporting liquefied natural gas.

This is how markets work. Prices and profits send signals to producers to expand investment and production. Economics 101 reminds us that the economy is not a zero-sum game. Therefore, expanded markets for U.S. natural gas in international markets will result in greater U.S. natural gas production, with such benefits as increased investment, GDP growth, rising incomes, and more jobs being among the results – just as is the case with increasing exports in any industry. Foreign demand boosts the incomes of U.S. energy entrepreneurs, businesses and workers, with added benefits rippling out through the larger economy.

Looking at a variety of market scenarios, the study commissioned by the U.S. Department of Energy reported: “Across all these scenarios, the U.S. was projected to gain net economic benefits from allowing LNG exports. Moreover, for every one of the market scenarios examined, net economic benefits increased as the level of LNG exports increased. In particular, scenarios with unlimited exports always had higher net economic benefits than corresponding cases with limited exports.”

Consider a few other key points or findings from the study:

• “In all of these cases, benefits that come from export expansion more than outweigh the losses from reduced capital and wage income to U.S. consumers, and hence LNG exports have net economic benefits in spite of higher domestic natural gas prices.”

• “Natural gas price changes attributable to LNG exports remain in a relatively narrow range across the entire range of scenarios. Natural gas price increases at the time LNG exports could begin range from zero to $0.33 (2010$/Mcf). The largest price increases that would be observed after 5 more years of potentially growing exports could range from $0.22 to $1.11 (2010$/Mcf).”

• “In none of the scenarios analyzed in this study do U.S. wellhead prices become linked to oil prices in the sense of rising to oil price parity, even if the U.S. is exporting to regions where natural gas prices are linked to oil. The reason is that costs of liquefaction, transportation, and regasification keep U.S. prices well below those in importing regions.”

It is important to recognize that expanding international trade always results in some resources being shifted. Indeed, that is the case with any expanding or newly created markets. But the key point is that resources are allocated to their best uses, with the results including new wealth being created, rising incomes and increased economic growth.

Margo Thorning, chief economist at the American Council for Capital Formation, noted the basic economics at work in this case in a January 10, 2013, article (on the “Thorning Forum”): “Increasing natural gas exports will provide domestic producers with market-based incentives to increase their production and expand trade to support our economic recovery: According to Brookings Institute, *Liquid Markets: Assessing the Case for U.S. Exports of Liquefied Natural Gas*: ‘both Deloitte and EIA found that the majority—63 percent, according to both studies— of the exported natural gas will come from new production as opposed to displaced consumption from other sectors.’ (See page 33).”

Also beyond the NERA study, it’s worth highlighting, and keeping in mind, key findings from an October 2012 study from IHS-CERA and the Chamber of Commerce’s Institute for 21st Century Energy. It found that shale energy development in recent years has produced 1.75 million jobs, and is projected to generate 2.5 million jobs in 2015, 3 million jobs in 2020, and 3.5 million jobs in 2035. In addition, shale energy workers earn more than double the national pay average. As for economic growth, between now and 2035, $5.1 trillion is expected to be invested in shale energy development, by the way, resulting in some $2.5 trillion in tax revenues being generated for federal, state and local governments. Shale energy will enhance U.S. energy security as well. It was reported, “Shale oil has been the primary driver behind the nearly 25% increase in domestic oil production over the last 4 years, a trend expected to continue resulting in a 46% increase by 2015 and a 68% increase by 2020… Shale gas has led to a 26% increase in domestic gas production since 2007 and is expected to lead to domestic production nearly doubling by 2035.”

Finally, it’s important to understand that these energy industries are populated overwhelmingly by small and mid-size businesses. Among employer firms, for example, in the oil and gas extraction industry, 91% of firms have fewer than 20 employees, and 98.6% less than 500 workers; 80.3% of firms doing supporting activities for drilling oil and gas wells have fewer than

20 employees, and 97.8% less than 500 workers; 83.4% of firms in supporting activities for drilling oil and gas operations have fewer than 20 employees, and 98.7% less than 500 workers; and in the oil and gas pipeline and related structures construction business, 61.1% of firms have fewer than 20 employees, and 94.9% less than 500 workers.

Any efforts to limit opportunities regarding LNG exports mean limiting the opportunities for small and mid-size businesses that work in and serve the energy business.

Economists have recognized the benefits of expanding trade since the days of Adam Smith and David Ricardo in the late eighteenth and early nineteenth centuries. Those benefits apply to the energy business, as much as they apply to any other industry.

Respectfully Submitted:
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