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Subject: Reply to Dow Chemical on the NERA Study of LNG Exports
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Last night I read the op ed piece titled *Wanted: a Balanced Approach to Shale Gas Exports* by Andrew Liveris, CEO of Dow Chemical in the Wall Street Journal. Until that moment I was convinced to remain silent on the issue of LNG exports and to not respond to the comments made by Dow Chemical and others concerning the NERA report – no longer. It is time someone stood up and told the truth about what is going on here.

Mr. Liveris, Dow Chemical and its allies are engaged in rent seeking. They are brazenly attempting to influence the Department of Energy into granting US manufacturers favors at the expense of oil and natural gas mineral owners, leaseholders, producers, and exporters. Susan Rose-Ackerman, a professor of Law and Political Science at Yale defines the term “Rent seeking: non-voting, non-criminal actions that are intended to change laws or administration of laws such that one individual an/or group gains at the same or greater expense to another individual or group.” Rent seeking distorts markets and leads to political corruption. The end result of rent seeking behavior is to reduce and redistribute wealth. It is wrong and has no place in our political system.

The Department of Energy should tell Dow Chemical emphatically NO. The United States of America is not some banana republic that changes its laws at a whim and for the convenience of some business at the expense of others. DOE should enforce the rule of law and its mandate that natural gas exports are presumed to be in the public interest unless PROVEN otherwise. DOE should approve all the pending Non-FTA LNG export licenses as soon as practically possible.

It is little wonder that Andrew Liveris and Dow Chemical have resorted to rent seeking. Under Andrew Liveris (an Australian citizen) leadership, Dow has lost 40% of its market value. When he took over as CEO in November of 2004, Dow's common stock was listed at \$50.47. Its current share price is \$31.38. In 2008 Liveris botched the purchase and take over of one of its competitors, Rohm & Haas, nearly bankrupting the company. Dow can't compete in the marketplace of ideas so it looks to the government for favors instead.

In January 2011 Mr. Liveris released the book “Make it in America” in which he advocates for American manufacturing. Yet a few months later Dow announces a joint venture in Saudi Arabia. The following year Dow opened an R&D facility in China. Liveris says one thing, and does another.

In its comments to DOE, Dow complains that if producers are allowed to export natural gas as LNG, prices might rise for companies like Dow. If Dow truly believes this, then there are ready solutions that do NOT require rent seeking behavior for Dow to moderate the impacts of higher energy costs. Dow could purchase natural gas futures on the New York Mercantile exchange. Dow could approach a natural gas producer and sign up for a fixed natural gas price contract. Or Dow itself could invest in an oil and gas company to lock in and secure supplies of natural gas for itself.

Dow has a history of doing this. Following the 1973 Arab oil embargo, Dow was concerned about supplies of petroleum naphtha for its Freeport, TX based ethylene crackers. Dow built a 200,000 barrel per day refinery in Oyster Creek, TX consisting of a crude tower, three distillate hydrotreaters, a resid desulfurizer, and two sulfur recovery units. Dow only operated the refinery for 9 months. In 1993 it sold the units to Phibro Energy USA Inc. who dismantled and relocated them to Texas City.

In 2005, Dow signed a contract with Freeport LNG who was building an LNG import facility near Freeport, to secure imported LNG. In fact, Dow is the parent company of Texas LNG Holdings, LLC who is one of the limited partners of Freeport LNG Development, L,P, Ironically, Freeport LNG is developing a liquefaction export project. The DOE has identified Freeport LNG at the top of its list for a pending non-FTA export license. Should an export license be granted to Freeport, Dow could negotiate out of its capacity agreement for imports that are no longer needed. Therefore Dow stands to benefit both directly and indirectly from exports of LNG. Perhaps this is why Dow has argued for SOME exports but not ALL export licenses. Should DOE approve Freeport's license to export and deny others, the value of Dow's investment increases substantially.

Little wonder that Dow sought to obscure its investment in Freeport LNG from the DOE nor make mention of it in any of the public forums.

In December of 2007 Dow signed a memorandum of understanding with Hunton Energy to build a

synthetic natural gas plant (again) at Dow's Oyster Creek chemical site. Later Hunton sought to use a proprietary gasification process approved by DOE in order to be eligible for taxpayer funds administered by DOE under the 2009 American Recovery and Reinvestment Act (even more favor seeking from the DOE). Hunton planned to capture carbon dioxide from the gasification process and sell it to Denbury Resources for use in enhanced oil recovery. Denbury was building a carbon dioxide pipeline in the area. In 2012 the deal with Dow fell through and the plant was never built.

So Dow shows that it is willing to secure energy supplies for itself. Given its track record, perhaps this is why Dow now looks to congress and the DOE to do its bidding. Unable to innovate, and bankrupt of ideas, Dow looks to 17th century protectionism to secure what it can't achieve in a 21st century global marketplace.

In his AEI blog, economics professor Mark Perry nominated Dow for "Rent-Seeker of the Year":

"According to United Nations data on the world's 100 largest transnational corporations, almost 68% of Dow Chemical's \$60 billion in global sales in 2011 were outside the U.S., and Alcoa's sales outside the U.S. represented more than half of its \$25 billion in global sales in 2011.

So here in a stunning display of hypocrisy, you have two U.S. companies that both depend on foreign markets for more than half of their sales (and in the case of Dow, more than 2/3 of its sales), and yet both of these transnational companies are attempting to place restrictions on the ability of other U.S. companies to take advantage of the same global markets that are providing them with significant sales and profits.

For their shameless rent-seeking attempts to use the political process to restrict U.S. oil and gas companies' access to foreign markets and in the process protect or increase their profits, I hereby nominate Dow Chemical and Alcoa for the "Rent-Seekers/Protectionists of the Year" awards."

In another post, Dr. Perry goes even further:

"The US is already exporting chemicals and petroleum products at record levels. For Dow and other companies to suddenly and selectively object to exports of natural gas seems disingenuous and embarrassing, as the WSJ points out. Dow and its allies apparently don't want limits on chemical exports, and aren't calling for limits on hydrocarbon fuels like fuel oil and the other petroleum products that are selling overseas at record levels. To selectively call for limits ONLY on exports of natural gas clearly exposes Dow, Nucor and Alcoa as self-interested rent-seekers deserving of a gold medal. It's truly shameful that companies like Dow are now wastefully spending resources to make the case that they are somehow entitled to the abundant natural resources that other US companies extracted from miles below the ground, that they didn't invest a penny of their own capital to produce, and that they didn't employ a single worker to develop."

This comment neatly ties up the argument that Dow is making: exports for us, but not for you. Dow seeks to capture for its own benefit resources that it did not produce. It wants to profit off the efforts of others.

On behalf of Americans who believe in free enterprise and economic freedom, please DOE, say no to rent seekers and crony capitalists. Say NO to Dow and approve LNG export licenses.

These comments are my own opinion and may or may not reflect the opinions of my employers, past or present.