Dear Department of Energy:

It's common for promoters of irresponsible "development" projects to overstate the benefits and understate the disadvantages of their proposals. The recent study about natural gas exports persuades me that this custom is still very much alive. As the author of a recently published book called "The JOB Messiahs," I myself know quite a bit about what passes for economic development. The book chronicles nearly forty disastrous years of it in the Coos Bay area of Oregon, and the equally disastrous results. And I'm afraid that, on balance, having an LNG terminal here will make our already-depressed economic situation worse, not better. Incidentally, I also speak as a local restaurant owner who stands to gain a bit from the construction of the local LNG terminal. On top of that I'm a member of the Chamber of Commerce, one of those that can always be counted on to spout meaningless praise for any stupid development idea that comes along.

But the intent of the recent DOE study was to take a broader perspective, one weighing benefits and disadvantages to the nation of exporting LNG. As I mentioned, it's typical of many industrial studies to turn into advocacy pieces, presenting an incomplete picture of the downside of the favored activity, while ignoring the potential upside of NOT engaging in it, to boot. Partly this is because our economy is a dynamic one, which makes it very difficult to predict new economic developments, and even more difficult to quantify them. So the best anybody can do is point out future trends, based on present facts. This is what I will try to do.

Among those facts is that natural gas, as the main feedstock for fertilizer, accounts for 70 or 80% of the production costs of that commodity. Prior to 2007, when the effects of greater gas production first became noticeable, the American fertilizer industry had been losing considerable ground to foreign competition. This was simply due to the rising cost of the gas, a cost that was bound to multiply if it had to be imported as LNG. Today, thanks to the new extracting techniques, that situation has been reversed, and keeping gas prices low will not only help our fertilizer industry recover, but by implication boost food production without raising prices. Moreover, there have been reports of major chemical industries repatriating their production to the U.S., also because of expected low gas prices. And then there is the potential for natural gas to be used as a transportation fuel instead of gasoline and diesel. Although no one can predict the future extent of any of these cheap-gas-based developments, none pose any real technical problems and all could be huge.

Not to be ignored either is the present, unambiguous trend in electric power generation away from coal, and toward natural gas. Should large-scale LNG export occur, the effect will inevitably be higher prices for domestic natural gas and, in consequence, higher electric power rates as well. It's hard to see how any of this would benefit the American consumer or, for that matter, most businesses except a few.

Although some of what follows may not be directly germane to the DOE study, you may wonder why an area like this has become a candidate for an LNG export terminal. The

short answer is that Coos Bay seems to attract industrial proposals that nobody else wants. For instance, when an LNG IMPORT terminal was first proposed for Coos Bay in 2005, when prices were high, we discovered that the object was to supply natural gas to California. We also found out that in Eureka, a northern California harbor quite similar to Coos Bay, a proposal for such a terminal had been defeated. But in Coos Bay, for some forty years, people who are convinced that this isolated little harbor can be transformed into a global industrial center have gone all-out to push unpopular industrial projects on an unwilling local population. In doing so, they have routinely told the most terrible lies, often with the help of "expert" reports. Always prominent among those lies were predictions of new JOBS and tax revenues to be generated. Those unpopular industrial projects, which are too numerous to mention here, always fell through, but they have had profound negative effects. They ended up scaring away potential new residents for this area, which offers scenic assets as good as any on the Oregon coast, along with more extensive civic amenities such as medical care, education and shopping. As a result the Coos Bay area is the only part of fast-growing western Oregon whose population has declined since 1980, producing high permanent unemployment and all the evils associated with that. In contrast, new residents have boosted the fortunes of almost every other town on this coast, boosting local property values some 25% higher than those in Coos Bay.

Before I go on I should mention that the chief objection of the Coos Bay locals to an LNG terminal is its potential fire hazard. Our geologic situation is a mirror-image of that off the northeast coast of Japan, where a huge earthquake and associated tsunami wiped out power to the Fukushima nuclear plants, causing meltdowns. Geologists tell us we have a 40% chance of such an event happening in the next fifty years, which makes the proposed location of the Coos Bay LNG plant hazardous, to say the least. There are other concerns, of which I should mention the enormous imposition – by eminent domain – of the required 3-foot pipeline on Oregon property owners, for the sole benefit of a Canadian gas export company.

Advocates of an LNG export terminal for Coos Bay tout the traditional claims about new jobs and tax revenues, based on the economic effects of what will admittedly be a large construction project. No doubt those jobs will have a sizeable local impact, but a very short-lived one. Goaded by intense demand for food and drink and lodging, some local businessmen will make foolish investments and after a year or two wake up with an economic hangover. And once the terminal is in operation there will only be a few dozen jobs directly associated with it plus, admittedly, some work for harbor pilots and other people in shipping. The study *appears* to recognize this on page 2: "LNG exports are not likely to affect the overall level of employment in the U.S…." Unfortunately this acknowledgement appears to do double duty as a slick way of ignoring the possible *negative* effects on employment: the authors talk as if there are none. But if, as seems likely, the revival of the chemical and fertilizer industries is slowed or reversed by rising natural gas prices, that will definitely "affect the overall level of employment in the U.S." but in a negative way. The same goes for the potentially huge industry of converting vehicles to natural gas, not to mention the millions of businesses, mostly small ones, that

will be affected by higher gas and electricity costs. It is therefore highly misleading to state, as the report does on pages 7 & 8:

> "Expansion of LNG exports has two major effects on income**:** it raises energy costs and, in the process, depresses both real wages and the return on capital in all other industries, but it also creates two additional sources of income. First, additional income comes in the form of higher export revenues and wealth transfers from incremental LNG exports at higher prices paid by overseas purchasers. Second, [some] U.S. households also benefit from higher natural gas resource income or rents. . . . The 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 natural gas prices. This is exactly the outcome that economic theory describes when barriers to trade are removed." *[some in parentheses added)*

So while the report's authors rejoice about mineral leases and higher stock prices of (Canadian) LNG companies, they grudgingly recognize some of the negative effects on more numerous, more average Americans, including their chances of finding jobs. But they do this by asserting that those effects are outweighed by the positive ones. Where is the proof for this? Apparently it comes (1) from models drawn on pieces of paper, which qualify as economic theory, (2) from the assumption that as long as a few people benefit, everybody benefits, and (3) from the willful disregard of potential, and potentially numerous, negative effects. It doesn't seem as if "ceteris paribus" clause was considered in this economic theory.

Economic theory is a wonderful thing, and I wouldn't wan to do without. But I assumed that the reason we have an Energy Department is not the strict application of it but to do so in a political environment. If every energy transaction were OK as long as it conformed to economic theory, we wouldn't need an Energy Department. But there are other factors. For an analogy, let's assume that a proposal came along to sell all the dirt off the Midwestern farms to the Chinese. There would be obvious monetary gains for farm owners and bulldozer dealers and railroads and ship owners, but there would be an outcry at what many would see as a gross impoverishment of our productive capacity. Something like this comes close to what the report seeks to justify. Moreover, in either example the domestic political environment will not react well to what will be widely seen as victimizing the common man for the benefit of a few fat cats, which is the gist of the report's argument. It's being widely recognized today, even among economists, that the financial gap between ordinary people and the top earners has been widening for decades. Why the government should try to make this worse (as the report clearly advocates) is beyond me.

In Coos Bay, local employment may well be further reduced by the long-standing aversion among potential new residents for settling here. That aversion, fostered by decades of attempts to forcibly re-industrialize this area, would be enhanced by the presence of an LNG terminal, which many consider a potential fireball that could consume us all. Most previous industrial proposals – all of which, as I said, failed to

materialize – posed livability threats because they were planned for the North Spit, a barrier peninsula half a mile upwind of our population centers. Prominent among those earlier proposals were industries widely seen as public nuisances: smelters, a huge pulp mill, and a steel mill. That none came about was not so much due to the local opposition – although proponents will claim it was – but because those proposals were either scams or unserious. The scams often involved stock market manipulation, while the unserious proposals took advantage of the natives' naïve faith in Coos Bay's industrial potential. This faith enables large industries looking for a new location to use Coos Bay as a pawn in their negotiations for corporate welfare elsewhere.

Local LNG export proponents also boast about the property tax revenues such a project would generate. The fact is, the industrial lands on the North Spit are inside an Enterprise Zone as well as in an Urban Renewal District. The Enterprise Zone would exempt the facility from property taxes for the first three to five years. Once it does start paying property taxes those would not go to local schools and services but to the Urban Renewal District, which ever since 1986 has been controlled by the Port of Coos Bay. And the Port of Coos Bay has a history of consistently urinating away such income streams on various boondoggles to feed its obsession with industrial development, and all for naught. Prominent among those boondoggles have been several multi-million dollar studies that never produce results.

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