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Testimony

of Matthew J. Klaben
Vice President, General Counsel and Secretary
Chart Industries, Inc.

before the House Committee on Ways and Means
Subcommittee on Trade

on "Trade Implications of U.S. Energy Policy and the Export of Liquefied Natural Gas (LNG)"

April 9, 2014

TESTIMONY OF MATTHEW J. KLABEN

BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON TRADE

Hearing on: *"Trade Implications of U.S. Energy Policy and the Export of Liquefied Natural Gas (LNG)"*

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Good morning, Chairman Nunes, Ranking Member Rangel, and members of the Subcommittee on Trade. My name is Matt Klaben, and I am Vice President, General Counsel and Secretary of Chart Industries, Inc. Chart is a leading independent global manufacturer of equipment for a wide variety of cryogenic and gas processing applications. Our equipment is used in the production, storage, distribution and end-use of atmospheric and industrial gases as well as natural gas itself. Chart has about 3,000 employees at locations in a dozen states across the U.S. From communities in Minnesota to Texas, and California to New York, and in between, my colleagues make high quality products for both domestic consumption and export to markets around the world.

I appear here today on behalf of Chart and the National Association of Manufacturers (NAM), an organization in which Chart is a proud member. The NAM is the nation's largest industrial trade association, representing nearly 12,000 small, medium and large manufacturers in every industrial sector and in all 50 states. Manufacturers are major energy consumers, using one-third of the energy consumed in the United States. For manufacturers, natural gas is a

critical component of an “all-of-the-above” energy strategy that embraces all forms of domestic energy production, including oil, gas, coal, nuclear, energy efficiency, alternative fuels and renewable energy sources.

Today’s hearing is about the trade implications of U.S. energy policy, in particular how the export of liquefied natural gas, or LNG, fits into our energy strategy. It is also about the potential opportunities that exist for companies like mine and our employees in communities across the United States.

Natural gas liquefaction is a manufacturing process. To convert natural gas to LNG, the gas is processed to remove impurities, like water, condensates as well as other gases, such as carbon dioxide, hydrogen sulfide and sometimes nitrogen and helium. The gas is then super-cooled in several stages until it is liquefied and ready for shipping.

Chart plays a vital role in the LNG supply chain, producing highly engineered equipment for applications from liquefaction to end use. For liquefaction, at facilities in places like La Crosse, Wisconsin, New Iberia, Louisiana, The Woodlands, Texas, and Tulsa, Oklahoma, we design, manufacture and fabricate equipment, such as heat exchangers, pressure vessels and cold boxes, that customers use to process and chill natural gas to produce LNG. Continuing along the LNG supply chain, in places like New Prague, Minnesota, Owatonna, Minnesota and Canton, Georgia, we design and manufacture vacuum-insulated tanks, trailers and other transportation and dispensing equipment, which customers use to store, transport and deliver LNG. Finally, we design and manufacture fuel tanks for trucks, buses, railroad

locomotives and even ships that use LNG as a transportation fuel in places like Canton, Georgia and New Prague, Minnesota.

Chart's participation in the LNG value chain has put us in a position to create many good-paying jobs in communities across the U.S. In recent years, we have invested tens of millions of dollars to expand our facilities in various American communities to be prepared for these opportunities. Let me take a few moments to tell you about one of those in La Crosse, Wisconsin, where we recently completed the expansion of our brazed aluminum heat exchanger manufacturing plant. This $50 million project increases the manufacturing capacity for our heat exchangers in La Crosse by 40%, doubles our engineering space and includes an additional vacuum brazing furnace, which is the largest of its type in the world. Our La Crosse facility employs more than 600 people and has a rich heritage boasting more than 60 years of uninterrupted heat exchanger manufacturing in the area. We have a five year contract with Machinist Union Local Lodge 2191, which continues our proud 60 year partnership with the International Association of Machinists and Aerospace Workers. In La Crosse, as we have done in other communities across the U.S., we have laid the foundation to support job growth, in anticipation of LNG-related opportunities continuing on their natural course, without artificial barriers.

The Department of Energy, or DOE, has received applications for 31 proposed terminals seeking to export LNG to non-free trade agreement (FTA) countries. While most of these proposed terminals have received approval to export to FTA countries, only seven have obtained approval to export to non-FTA

countries. Once built, these seven facilities are estimated to produce 12.87 billion cubic feet per day (Bcf/d), of which a significant portion would only be allowed for export to FTA countries.[1] The DOE licensing process has become a regulatory choke point for LNG export applicants; at DOE's current pace, some of the applications in the queue could be waiting until 2016 or later before they can move to the next step in the multi-year permitting process. As we look at demands growing in Europe, Asia and elsewhere, we believe this process is far too slow and contrary to our long tradition as an exporting nation and to our international obligations.

Manufacturers believe LNG exports should be governed by principles of free trade and open markets. Manufacturers also oppose bans or similar market-distorting barriers to exports of LNG or any other commodity here in the United States and around the world. For this reason, the NAM has called on the DOE to accelerate the decision making process for the remaining 24 applications in its queue. The DOE owes applicants an up-or-down decision as expeditiously as possible, so that the market may operate properly.

Approval of pending LNG export terminals would place Chart in a position to create jobs in the U.S. Chart designs and manufactures equipment that is needed to construct the export terminals in communities like La Crosse, Wisconsin, New Iberia, Louisiana, The Woodlands, Texas and New Prague, Minnesota. If Chart is selected to supply equipment for just one average-sized export terminal, it would support hundreds of jobs at Chart facilities, and further hundreds of jobs with Chart suppliers in other communities around the U.S. And

[1] http://energy.gov/fe/downloads/summary-lng-export-applications.

we do expect that we will participate in this infrastructure build-out, if it moves forward.

Chart and its suppliers are not alone—we represent just a small part of the LNG value chain and the total work needed. Each LNG export terminal costs roughly $10 billion to construct. Each project would create thousands (and in some cases tens of thousands) of jobs and generate billions of dollars in economic benefits. Manufacturers across the country would create jobs making compressors, heat exchangers, storage tanks, pipes, valves and other components of these state-of-the-art infrastructure projects.

Importantly, even after construction is completed, the operation of LNG export terminals could put Chart and other manufacturers in a position to create many more U.S. jobs, while enhancing American energy security through the creation of needed domestic infrastructure. Let me suggest a few examples. First, the demand for natural gas from these terminals would lead to production of additional natural gas liquids—valuable by-products from gas that generally are not part of natural gas liquefaction but instead are used in other manufacturing processes. Chart and other manufacturers make the equipment needed for processing these liquids and for their use in industry. In addition, we believe the construction of these terminals would promote an environment of further business investment in LNG applications, providing an opportunity for Chart and other manufacturers to create more jobs building things like domestic infrastructure for use of LNG as a transportation fuel. Finally, some of the LNG output of these terminals could serve domestic LNG fueling needs if market

conditions support it, potentially relieving domestic LNG supply shortfalls that today limit our use of this clean-burning American fuel. In the end, we expect the existence of LNG export terminals will help unlock the true potential that America's natural gas wealth holds for American manufacturing, job growth and energy security.

From our country's earliest days, the United States has recognized the importance of exporting to grow our economy. Indeed, Article I section 9 of our own Constitution banned the imposition of export taxes. The United States has also led the world in adopting international rules to prohibit countries from using export restrictions to gain an unfair competitive advantage. The NAM was pleased to see the World Trade Organization (WTO) enforce these obligations with China, which was restricting exports of raw materials and rare earths to the detriment of U.S. industries and workers.

For the United States, the same principles must apply. In December 2013, former WTO Appellate Body Chairman James Bacchus authored a report for the NAM concluding that the delay by the DOE to issue licenses to export LNG to foreign countries likely constitutes, in and of itself, a violation of our international obligations under the WTO. As a member of the WTO, the United States is bound to comply with trade rules contained in WTO agreements that we helped develop. If the United States is going to continue to lead the world in pursuing a rules-based international system, we should not ourselves be in violation of the very same commitments we ask others to respect.

With 95 percent of the world's consumers living outside of the U.S., export bans on any product, including LNG, can be expected to have far-reaching negative effects, including on domestic economic opportunities, employment and ultimately economic growth. The U.S. government's ability to convince other countries to eliminate their existing export restraints on agricultural, forestry, mineral and ferrous scrap products—just to name a few—will be seriously compromised if the U.S. imposes its own export restrictions. Even worse, as the world's largest economy and largest trading country, U.S. actions are often replicated by our trading partners to our own dismay. If the United States goes down the path of export restrictions, even more countries would quickly follow suit and could easily limit U.S. access to other key natural resources or inputs that are not readily available in the United States.

At Chart, last year we manufactured and sold over $800 million of high quality products from communities across the United States. We exported over 44% of those American-made products to customers around the world in places as diverse as China, Europe and Australia. Chart and many others across the U.S. benefit from the principles of free trade to support American manufacturing jobs from coast-to-coast and in between. Deviations from those principles, whether at home or abroad, can only hurt us and our communities as a whole.

Conclusion

With the right energy policies in place, manufacturers could experience a true resurgence. Chart is no different. Robust development of our nation's vast natural gas resources will help drive domestic manufacturing as a critical

component of a true “all-of-the-above” energy strategy. To the extent the market creates opportunities for LNG exports the government should not be standing in the way of those opportunities. We believe the market can provide equilibrium between affordable, abundant gas supplies for domestic manufacturers and opportunities for LNG exports.