

**Testimony of Michael Ratner,
Specialist in Energy Policy for Congressional Research Service,
Before the House of Representatives Committee on Foreign Affairs,
Subcommittee on Terrorism, Non-Proliferation, and Trade,
Hearing on Natural Gas Exports: Economic and Geopolitical Opportunities
on April 25, 2013**

Chairman Poe, Ranking Member Sherman, Members of the Committee, my name is Michael Ratner, I am a Specialist in Energy Policy at the Congressional Research Service. Thank you for inviting me to testify on the important issue of liquefied natural gas (LNG) exports. In addition to my remarks today, CRS has an in-depth report on this topic, and in accordance with our enabling statutes, CRS takes no position on any related legislation.

Introduction

The United States would not be considering LNG exports without the advent of shale gas. Prior to 2007, the United States was viewed as a growing natural gas importer. Terminals were built in the 2000s to import LNG from overseas and prices were rising. The success of shale gas production has reversed these trends. Prices have come down since peaking in 2008, and the U.S. price for gas is lower than other regional markets. Pipelines are being reconfigured to transport gas from new supply centers to consumers. Natural gas imports are down, and LNG import terminals sit idle with many having applied for export permits.

This brings us to where we are today, weighing the benefits and costs of LNG exports. I will focus on four components of the debate—economic impacts, trade issues, environmental concerns, and the Department of Energy's (DOE) approval process.

Economic Impacts

First, all else being equal, LNG exports should raise domestic prices because they increase total demand. However, whether LNG exports are good or bad for the economy, in part, depends upon one's perspective. Most gas producers, who have faced low domestic prices, would like to export to expand their market and access higher international prices. Some large industrial consumers of natural gas argue that allowing exports will raise domestic prices and stifle the economic benefits of having a low cost input. For the federal government, LNG exports may or may not lead to a net increase in federal revenue. Additional taxes paid by LNG exporters because of higher gas company profits could be offset by a decline in taxes paid by large consumers of natural gas because of higher domestic prices. Federal royalties would only increase if new natural gas production comes from federal lands. Meanwhile, directly taxing exports raises constitutional issues.

Natural gas is used for three primary purposes: electricity generation, residential and commercial heating, and industrial processes. The specifics of each of these market segments will determine the effects of LNG exports. For example, the price of natural gas is just one component of the total cost of residential heating. While LNG exports may raise gas prices, new supplies may reduce transit costs. In addition to current uses, there has been discussion of using natural gas as a transportation fuel. Although some progress is being made, it is more a long-term prospect because of the infrastructure and technological changes that would have to occur. Price is just one factor that companies and consumers will consider before investing in natural gas fueled vehicles.

Trade Issues

Second, the decision to permit or restrict LNG exports also raises trade considerations. As a member of the World Trade Organization (WTO), the United States could be subject to cases under the General Agreement on Tariffs and Trade's General Prohibition Against Quantitative Restraints if exports were limited. While certain exemptions from this prohibition may be granted, export restrictions may put the United States in a contradictory position vis-à-vis cases it has brought to the WTO.

Environmental Concerns

Third, as shale gas came to market, it was hailed as a way to reduce emissions, but environmental concerns were also raised, primarily because of the industry process known as hydraulic fracturing, or “fracking.” Environmental groups against exports assert that additional production from shale for exports implies more fracking.

DOE Permit Process

Finally, DOE's statutory requirement to determine if LNG exports to countries with which the United States does not have a free trade agreement (FTA) are “not” in the public interest has attracted a lot of attention. To make its determination, DOE evaluates many factors, including domestic need, previously approved capacity, adequacy of supply, the environment, geopolitics, and energy security, among others things. DOE commissioned two studies as part of its evaluation, one by the Energy Information Administration (EIA) on price effects and one by NERA Economic Consulting (NERA) on macroeconomic impacts of LNG exports. Both studies have received praise and criticism by various stakeholders. EIA's scenarios were viewed as unrealistic because of the high volumes considered, but those are now well below the level of export applications. NERA's

use of data from EIA's 2011 Annual Energy Outlook was considered dated. The data did not include potential domestic industrial demand, nor did it include recent improvements in shale gas extraction. EIA bases its projections on existing policy, technology, and data, not possible changes in any of these.

Despite recent testimony, DOE has not laid out a clear timetable for approving pending permits, nor how it weighs each input in its decision. Some stakeholders have faulted DOE for a lack of transparency.

Thank you for the opportunity to appear before the committee. I will be happy to address any questions you may have.