

The American Chemistry Council

Statement for the Record

House Committee on Ways & Means
Subcommittee on Select Revenue Measures
Subcommittee on Oversight

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Submitted by:

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I appreciate the opportunity to testify on behalf of the American Chemistry Council and our members and to offer my thoughts on the importance of a stable, competitive natural gas market to meet future energy demand and ensure America's economic competitiveness.

Your hearing today acknowledges that the United States tax code is often used to drive energy policy and influence markets – and sometimes, with unintended and detrimental results. The ACC believes that our nation needs a comprehensive energy strategy that promotes the sustainable, efficient use of all energy sources, not a piecemeal approach that relies too heavily on the tax code to promote specific market outcomes.

The New Alternative Transportation to Give Americans Solutions Act (“NAT GAS” Act) is one such ineffective, inefficient proposal, offered at a time when our nation can least afford it. If enacted, subsidies like those in the NAT GAS Act will distort the natural gas market by artificially increasing demand ahead of supply, and will risk stifling investment and job creation.

There is no denying the importance of natural gas to our nation's economic competitiveness, our quality of life, and our clean energy future. Today, natural gas heats millions of American homes and generates over 20% of our electricity.¹ But that is far from the whole story: natural gas is also vital to the productivity of the U.S. manufacturing sector, which uses more than a quarter of our nation's natural gas.²

This is particularly true for America's chemical industry, which uses natural gas as both a power source and a raw material to develop and produce fertilizers, pharmaceuticals, plastics and other advanced materials. Our products and materials are then used by other industries to create new goods on which American families, farmers and businesses rely. In fact, more than 96% of all domestically manufactured goods are enabled by chemistry – everything from the packaging that keeps our food fresher longer to building products that make our homes more energy efficient and affordable, to parts and materials, including high-tech composites, that make our cars, planes, and electronics lighter, stronger and more fuel efficient.

New supplies of natural gas from previously untapped shale deposits offer an abundant and reliable domestic energy source. The U.S. Energy Information Administration (EIA) projects that shale gas will account for an increasing share of our domestic natural gas production in the coming decades, approaching 50%.³

Shale gas has been a “game changer” for the domestic chemical industry. When competitively priced, ethane (derived from natural gas) gives U.S. manufacturers an advantage over many competitors around the world, which tend to rely on more expensive, oil-based raw materials.

¹ Energy Information Administration, *Annual Energy Outlook 2011*, Washington, DC, April 26, 2011, at: http://www.eia.gov/forecasts/aeo/MT_electric.cfm.

² EIA, *Natural Gas Consumption by End Use*, Washington, D.C., June 29, 2011, at: http://www.eia.gov/dnav/ng/ng_cons_sum_dcunusa.htm.

³ EIA estimates shale gas will make up 47 percent of total U.S. production by 2035, up from the 16% in 2009. Energy Information Administration, *Annual Energy Outlook 2011*, Washington, DC, April 26, 2011, at: http://www.eia.gov/forecasts/aeo/chapter_executive_summary.cfm#domestic.

In recent months, numerous chemical manufacturers have announced new investments thanks to the outlook for predictable domestic natural gas markets. For example, Dow Chemical announced it will restart operations in facilities idled during the recession and Eastman Chemical has already done so. Executives from Bayer are in talks with companies interested in building new ethane crackers at its two industrial parks in West Virginia, and other companies, including Chevron Phillips Chemical and LyondellBasell, are considering expanding operations in the U.S.

Investments like these will generate high-paying jobs in the chemical industry and hundreds of thousands more throughout the country. A recent American Chemistry Council study found that reasonable increases – on the order of 25% – in U.S. ethane supply (from shale gas) would result in nearly 400,000 new jobs in the chemical sector and supplier industries; more than \$132 billion in U.S. economic output; and nearly \$4.4 billion in local, state and federal taxes, annually. Further, businesses that use ethane-based chemicals, like plastic and rubber products, would benefit as well. ACC’s research indicates that these companies stand to gain as many as 80,000 new jobs.

And, stable raw materials costs for the chemical industry mean greater certainty for other manufacturers, helping to keep consumer prices low and encouraging expansion, exports and job creation. Despite a poor economy in 2010, chemistry exports increased 15 percent, shifting the industry’s balance of trade from a \$140 million deficit two years ago to a \$4.6 billion surplus.⁴ And we’ve seen that over the past year, as the price of natural gas has been stable and competitive, the manufacturing sector has begun to add new jobs, albeit cautiously – with over 160,000 added since November.⁵

So it is clear that policymakers should take great care when considering legislation that introduces unnecessary distortions into the natural gas market. And, unfortunately, the NAT GAS is a step in the wrong direction.

The NAT GAS Act aims to boost the production and use of natural gas vehicles (NGVs) by offering, according to the supporters’ own estimates, up to \$5 billion in taxpayer-funded subsidies to the manufacturers and equipment suppliers who produce them and the people who buy and operate them. But frankly, the bang-for-the-buck just isn’t there. A recent revenue analysis by Ernst & Young conducted for ACC estimated that the NAT GAS Act would result in about 22,000 new natural gas vehicles on the road. That’s a cost to taxpayers of \$135,000 per vehicle, whether it is an eighteen-wheeler or a subcompact car. This is an unacceptably high price tag, driven in large part by the need for substantial new infrastructure to support the NGV market.

Even more troubling is that proposals like the NAT GAS Act carry the potential to introduce dangerous volatility into the natural gas market. Incentives like these proposed subsidies artificially increase demand – and will also increase prices as a result. And this would be in

⁴ American Chemistry Council, “2011 Guide to the Business of Chemistry,” p. 55, Washington, D.C., July 21, 2011.

⁵ Bureau of Labor Statistics, U.S. Department of Labor, “The Employment Situation – June 2011,” Washington, D.C., July 8, 2011, at: <http://www.bls.gov/news.release/pdf/empst.pdf>.

addition to the real increases in demand we're already seeing, and which are likely to continue in decades to come. The EIA projects that, particularly as coal-fired power plants are taken offline, the demand for natural gas will grow, with natural-gas-fired plants accounting for 60 percent of electricity-generation capacity additions between 2010 and 2035.⁶ And this does not even reflect proposed regulatory changes that, according to EIA, would further drive the demand for natural gas for the power industry by as much as 40% above current assumptions.⁷ Add to this artificially supported demand (be it from the transportation or other sectors) and the result could be an unbalanced market, with demand outstripping available supply and prices rising as a result.

I would also note that even as Congress considers mandating new subsidies for the use of projected natural gas resources, some federal and state lawmakers are promoting policies and regulations that would restrict gas production. We cannot, and should not, allocate resources that are not yet out of the ground, nor should we mandate demand ahead of supply. The NAT GAS Act would do just that.

The NAT GAS Act has the potential to create an unbalanced, volatile market plagued by price spikes. And as you know, American manufacturing thrives in an environment with predictable energy prices based on markets where adequate supply meets real demand. A return to volatile natural gas markets, similar to those of previous decades, would undermine a growing resurgence in the domestic chemical industry, a sector that employs 720,000 Americans directly and supports over 5 million more jobs across the economy. We've been on this roller-coaster before, and we've felt the consequences throughout American industry. Data from the last fifty years show that as natural gas prices go up, exports from our industry fall precipitously; and manufacturing jobs go right down with them. Our industry lost over 120,000 jobs as natural gas prices spiked not five years ago.

ACC is not arguing against the continued deployment of natural gas vehicles as one component of a national energy strategy. We are arguing that market forces should determine the appropriate supply and prices of these vehicles and their fuel, rather than introducing additional, expensive distortions. And in fact, the NGV industry is *already* developing in sectors where the economics support it. A few examples: in July, Waste Management announced it had added its 1,000th natural gas truck to its fleet, making it "the largest owner and operator of clean-running, heavy duty refuse trucks in North America," according to its press release.⁸ And compressed natural gas (CNG) fueling stations are popping up from Pennsylvania to Michigan to Texas. At least five new stations were opened during *just one week* in July.⁹

⁶ Energy Information Administration, *Annual Energy Outlook 2011*, Washington, DC, April 26, 2011, at: http://www.eia.gov/forecasts/aeo/MT_electric.cfm.

⁷ Natural-gas-fired electricity generation of 1,797 billion kilowatthours, compared with 1,288 billion kilowatthours in the reference case; Energy Information Administration, *Annual Energy Outlook 2011*, Washington, DC, April 26, 2011, at: http://www.eia.gov/forecasts/aeo/chapter_executive_summary.cfm#domestic.

⁸ "Waste Management Adds 1,000th Truck to Natural Gas Fleet," *Waste Management*, Carson, CA, July 12, 2011, at: http://www.wm.com/about/press-room/pr2011/20110712_Waste_Management_Reaches_1000th_Natural_Gas_Truck.pdf.

⁹ "Fueling Stations Added Across the U.S.," Sam Harper, *America's Natural Gas Alliance (ANGA)*, Washington, DC, July 22, 2011, at: <http://anga.us/media-room/blog/2011/7/22/fueling-stations-added-across-the-us>.

This does not appear to be an industry in need of new or expanded subsidies. I realize that the Act's sponsors are considering so-called "pay for" measures to cover the cost of these subsidies; essentially taking these funds from some other unidentified program. But, whatever the program, and whatever the strategy, the end result is the same: a new government handout to an industry that is already growing, at a time when we should be eliminating such unnecessary federal spending.

What we need instead is comprehensive energy strategy that promotes the sustainable, efficient use of all energy sources. And proposals like the NAT GAS Act will not get us there. If instead, we continue to use the tax code to enact inefficient, ineffective policies that artificially prop up demand for natural gas, the unfortunate results will be volatility and price spikes and higher-prices for U.S. manufacturers and consumers. These efforts will discourage job creation, unnecessarily restrict exports, and suppress revenue generation – at a time when our nation desperately needs all three.