Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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June 12, 2017

Chair of the Trade Policy Staff Committee
Office of the United States Trade Representative
U.S. International Trade Commission
500 E St. SW.
Washington, DC 20436

Docket Number: USTR-2017-0006

Re: Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement (NAFTA) with Canada and Mexico, NAFTA Negotiations

I. Industrial Energy Consumers of America (IECA)

IECA is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales and more than 1.6 million employees. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.

The majority of IECA companies are energy-intensive trade-exposed (EITE) companies. They are some of the largest industrial consumers of natural gas and electricity in the U.S., if not the world. It also means that relatively small changes to the price of natural gas or electricity can have large impacts in the ability to compete globally. Many of these companies compete with state-owned enterprises that are owned by governments and are subsidized. U.S. companies are not subsidized.

II. Recommendations

1. **The agreement should provide a level playing field for U.S. manufactured goods or the U.S. should not agree to export natural gas.**

It does not make economic sense, nor is it in the public interest, to export natural gas to countries that use it to produce manufacturing products, which then compete with U.S. manufactured goods.

2. **The agreement should include a provision to protect U.S. consumers from higher prices of natural gas and natural gas-fired electricity due to, among other things, exports of natural gas to Mexico and Canada. The provision gives the federal government the ability to slow or stop exports of natural gas to protect U.S. economic growth, U.S. citizens, industry, and national security.**

Natural gas is a soverign resource of the U.S. and its people, which is "not" renewable and for which, to many, there is no substitute. And, near-term demand is consuming our lowest cost natural gas. The U.S. Department of Energy (DOE) confirms that the breakeven cost to produce natural gas slopes upward. Long-term, the cost of producing gas gets more expensive.

For that reason the federal government should include a provision which gives the U.S. the ability to slow or stop exports of natural gas in the event that U.S. prices of natural gas increase, whether or not there is causation by the trade agreement.

According to the Energy Information Administration's (EIA) Annual Energy Outlook (AEO) 2017, the U.S. only has a 53-year supply of natural gas in the lower 48 states which is technically recoverable resources. "Technically recoverable" does not mean that it is "economically" recoverable. Eighty-five percent of U.S. natural gas resources are unproven. There is only 9.5 years of proven resources.

It is important to note that the manufacturing sector builds facilities to last 50 years or more. Therefore, a 53-year supply is not a lot of natural gas. By comparison, coal has over a 300-year supply. If natural gas prices rise, it has the potential to threaten trillions of dollars in existing manufacturing capital assets, along with high paying middle class jobs.

Action by the U.S. to reduce shipments of natural gas does not have to be justified due to the volume of exports to that country. For example, if the federal government or state action restricts production of U.S. natural gas, less will be produced. Or, volumes of LNG that have been approved under contract by the DOE for periods of up to 30 years could increase prices. These examples further illustrate why a provision is needed.

The provision recognizes that natural gas is not only a fuel, it is a feedstock, a raw material for the production of basic chemicals, plastics, and products such as nitrogen fertilizer. For facilities that use it as a feedstock, there is no alternative. Manufacturing facilities that use natural gas to operate their facilities, power generators and home owners also do not have an alternative.

3. **The agreement should include a provision that prohibits either Mexico or Canada from receiving U.S. produced natural gas either by pipeline of in the form of LNG, and then exporting the natural gas to other countries.**

U.S. exports of LNG are governed by the Natural Gas Act. To allow countries to export U.S. produced natural gas is for purposes of getting around the Natural Gas Act.

If you have any questions on these points, please feel free to contact us.

Sincerely,

Paul N. Cicio
President