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

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July 24, 2014

The Honorable Mary Landrieu
Chair, Committee on Energy and Natural Resources
U.S. Senate
703 Hart Senate Office Building
Washington, DC 20510

The Honorable Lisa Murkowski
Ranking Member, Committee on Energy and Natural Resources
U.S. Senate
709 Hart Senate Office Building
Washington, DC 20510

RE: Deloitte's Australia LNG Export Report – Illustrates Economic Dangers of Unfettered LNG Exports

Dear Chair Landrieu and Ranking Member Murkowski:

The Industrial Energy Consumers of America (IECA) would like to bring to your attention a July 2014 report that illustrates how unfettered Australian LNG exports have created serious economic threats to the Australian manufacturing sector. The report is a cautionary tale on why the U.S. should take a measured approach to approving LNG export terminals. The report is entitled, "Gas Market Transformations – Economic Consequences for the Manufacturing Sector,[1]" and was completed by Deloitte Access Economics for six Australian manufacturing associations. Australia is the third largest producer of natural gas and the fifth largest seller of LNG.

AUSTRALIAN NATURAL GAS PRICES HAVE TRIPLED AND THERE IS INADEQUATE SUPPLY FOR DOMESTIC CONSUMERS

The issue at hand is that even though Australia is the third largest producer of natural gas in the world, Australian natural gas prices have tripled in response to the significant LNG exports driven by OPEC cartel crude oil LNG-linked pricing. Like the U.S., the Australian natural gas market was once a "free market" whereby domestic supply and demand determined the price. Now, because of LNG exports, natural gas suppliers have "market power" and can dictate higher prices.

The Australian manufacturing sector is requesting that the Australian government and gas suppliers reserve a part of the nation's gas resources for the domestic industries at a price that is lower than the LNG net back price to Asian customers. Gas producers are refusing to do so because it would reduce their profit. Because LNG exporters have already received approval by the Australian government to export long ago, and secured long-term contracts to sell the gas,

[1] "Gas Market Transformations – Economic Consequences for the Manufacturing Sector," Deloitte Access Economics, July 2014, http://pdf.aigroup.asn.au/Deloitte%20Gas%20Market%20Transformations%20-%20Manufacturing%20Impacts%20Report%20-%20web%20final%20-%20July%2014%202014.pdf

they are under no obligation to supply domestic homeowners, manufacturers, and power generators. LNG exporters are making it clear that they do not intend to set natural gas aside for the domestic market.[2] Australian manufacturers are closing their doors and power companies are taking action to switch from natural gas to coal. The cost of home heating and cooling has also soared.

INFORMATION FROM THE DELOITTE AUSTRALIAN LNG EXPORT REPORT

- The six sponsoring trade associations include: Australia Industry Group, Australia Aluminum Council, The Australian Steel Institute, the Australia Food and Grocery Council, the Energy Users Association of Australia, and the Plastics and Chemicals Industries Associations.

- Australia started exporting LNG in 1989, and continues to increase export capacity, which has tripled their domestic price of natural gas. According to the report, Australia will experience the following impacts due to rising natural gas prices:

    - Australia's manufacturing output will diminish by $118 billion over the next seven years;
    - 14,600 manufacturing jobs will be lost; and
    - The mining sector will diminish by $34 billion and the agricultural sector by $4.5 billion.

QUOTES BY AUSTRALIAN TRADE ASSOCIATIONS

Australian Industry Group Chief Executive Innes Wilox said, "Gas exports should be pure good news for Australia. However, the strong benefits for investment and export earnings come with serious side effects for domestic manufacturing: tight supply and surging prices. Without reform, our rich energy reserves will no longer contribute to Australia's competitiveness"

Steel Institute CEO Don McDonald said, "Market power is a long recognized problem and one that must be addressed if the domestic market is to operate efficiently, respond to the transformation that will flow for the export boom and ensure gas continues to flow to relatively small domestic users."

Mr. Phil Barresi, CEO of the **Energy Users Association of Australia** echoed the call for urgent action from all governments, suppliers and infrastructure operators. "Australia companies seeking to renew or establish gas supply contracts for domestic operations are already facing an escalation in prices, uncertainty of supply and an inability to lock in long term supply contracts."

Executive Director of the **Aluminum Council**, Miles Prosser, said action on multiple fronts was needed to avert dire consequences for Australian manufacturing. "Alumina refining is a gas intensive process and the forecast price rise is already seeing investments put on hold."

Australian Food and Grocery Council CEO Gary Dawson said in a trade exposed sector like food and grocery, Australian producers had limited or no capacity to pass through higher utility costs. "If a food processing plant shuts down there is a direct flow on effect to farmers supplying that plant when they lose their key customer."

[2] http://www.thehindubusinessline.com/companies/australian-industry-gas-producers-at-loggerheads/article6221832.ece

Plastics and Chemicals Industries Association CEO Samantha Read said, "A key contribution of this report is that it reveals how important natural gas is to the Australian economy. A supply and price shock to the extent forecast from the LNG export boom requires a broad national response. It's not too late to avert some of the damaging consequences."

Natural gas is not a renewable resource. U.S. natural gas provides a once in a lifetime treasure upon which to build our economy and manufacturing sector for future generations to come. Unfettered LNG exports undermine the economy by raising natural gas and electricity costs. U.S. policymakers should look to the Australian LNG export example as a warning for what can occur due to escalating LNG exports driven, not by free markets, but by OPEC cartel crude oil LNG-linked prices.

Sincerely,

Paul N. Cicio
President

cc: Senate Committee on Energy and Natural Resources
The Honorable Ernest Moniz, U.S. Department of Energy

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.4 million employees worldwide. 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: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, brewing, independent oil refining, and cement.