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Testimony
Before the Subcommittee on Energy and Minerals
Of the
Committee on Resources
United States House of Representatives

Hearing on the Benefits of Offshore Oil and Natural Gas Development
August 13, 2005
Port Fourchon, Louisiana

Dan Borne

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My name is Dan Borne and I am the President of the Louisiana Chemical Association. The LCA consists of 69 chemical manufacturers that operate at nearly 100 locations in Louisiana. Our plants directly employ over 27,000 Louisiana citizens and indirectly account for tens of thousands more jobs.

I am appearing today on behalf of LCA. My comments, however, also reflect the views of the American Chemistry Council and the Consumers Alliance for Affordable Natural Gas. I'm here to represent the views of major natural gas consumers.

I'd like to start by explaining why the availability and the price of natural gas are so important to my industry --- and to the entire American manufacturing economy. We consume a large amount of energy – and especially natural gas – to power our plants and processes. But we also use natural gas like a baker uses flour. The bakery shops in New Orleans use flour to produce bread, especially French bread, sweet roles, muffins, bagels, croissants and, of course, King Cakes. We use natural gas as feed stocks to make items – plastics, paints, pharmaceuticals, adhesives, detergents, fertilizers and a thousand other products that everyone of us uses every day. Even aspirin can be traced back to natural gas molecules. And, finally, we purchase a lot of power, much of which is generated by natural gas.

In fact:

- Louisiana is the third largest consumer of natural gas in the United States.
- Louisiana's industrial consumption ranks second in the United States.
- Louisiana's industrial and power natural gas consumption is nearly as large as China's and is larger than Australia, Spain, Brazil, New Zealand, Ireland, Portugal and South Africa.

The US chemical industry consumes more energy than Mexico, more electricity than the state of New York and more natural gas than California to produce a wide range of critical products. Put another way, the chemical industry consumes enough natural gas to heat 30 million homes a year – almost half of the nation's home heating needs. The availability and price of natural gas are our most important economic issues.

Today, the price of natural gas is hovering at close to $9.00 per million BTU. That's equivalent to saying the price of gasoline is hovering at close to $5.00 per gallon. The industry's natural gas costs have increased by $10 billion in two years. That is $10 billion we did not return to our shareholders, or invest in new facilities.

The effect of those additional costs – think of it as a huge energy tax – has been severe. We've seen a 20 percent decline in natural gas consumption in the chemical industry. Economists call it 'demand destruction.' We call it job loss.

American jobs are being out-forced by the rising cost of natural gas!

Dozens of plants around the country have closed their doors. Those jobs have gone away and will be hard to get back. Here in Louisiana, chemical manufacturing has lost over 3000 jobs due to high gas costs. These jobs average nearly $60,000 a year in wages alone.

US chemical industry operations lost $50 billion in business to overseas operations since 2000 as high natural gas costs eroded competitiveness. We went from posting trade surpluses in excess of $20 billion – the most successful export industry in the history of this nation – to the US being a net importer of chemicals. More than 100,000 American jobs have been displaced in the chemical industry. A similar story is being played out in the forest and paper industry, steel, glass and other energy intensive industries. Overall US manufacturing has lost 3 million jobs. Even as employment rebounds, manufacturing jobs continue to decline driven by spiraling energy costs.

We are hemorrhaging production and jobs because US natural gas prices are the highest in the world – ten times higher than in certain parts of the Middle East and Russia. This cripples the competitiveness of US operations. It's a case of too much demand chasing too little supply. Utility consumption of natural gas grew by 31 percent in a few short years. At the same time, existing supply basins are beginning to decline. Promising new basins in the Eastern Gulf of Mexico and on the Atlantic and Pacific seaboards remain – by federal fiat – off-limits.

The President signed The Energy Policy Act on Monday and it is now the law of the land.

We supported the bill because it helps to reduce the natural gas demand-supply imbalance:

- It breaks new ground in the area of energy efficiency to reduce natural gas demand.
- It makes a serious effort to diversify the energy supply – it is an incubator for new technologies, further reducing natural gas demand.
- It gives the nation's energy infrastructure a much-needed facelift in the form of new LNG terminals and pipelines.
- And, it adds to the natural gas supply by streamlining on shore permitting, but not as much as the market needs. It will reduce the red tape that slows up natural gas production in western states.

But let's be clear about one thing: it does nothing to change 25 years of federal policy on off shore energy development -- and therefore leaves the nation short of desperately needed new supplies of natural gas. So while the bill makes significant progress, more is needed if we are to restore competitive natural gas prices and staunch the erosion of US jobs.

US policy continues to keep the most promising areas for gas production off limits and that happens to be in certain off shore waters. That policy was implemented at a time when natural gas prices were low and supplies were thought to be high. Today, the reverse is true and current policies must change to keep pace with reality.

Louisiana is a leader in the production of natural gas. The state is second over all in gas production and first in federal offshore production by a wide margin. So we recognize the concerns of some coastal communities, because our communities have those same concerns. We think the way to do it is to give coastal states the right to decide if natural gas production off their coasts is in their best interest on a state-by-state basis. If a state opts to produce it should also qualify for coastal impact assistance, and because of the recent energy bill Louisiana will indeed share in some of the revenue collected off its shores. A state should, of course, also have the right not to produce. That makes sense. What doesn't make sense is to continue a blanket ban on 80 percent of the OCS while the unnaturally high US price of natural gas drives businesses and jobs overseas.

In closing, I'd like to thank you for holding this hearing and thank you for your continued interest in the issue. How OCS access is resolved will have long-term consequences for manufacturing and the economy in America. We think we need responsible off shore energy production as part of a balanced domestic energy policy.