July 13, 2011

The Honorable John A. Boehner
Speaker
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The emergence of natural gas from shale as an abundant, reliable source of domestic energy is one of the most meaningful developments in America's energy and economic security in at least a generation. This is particularly true for the chemistry industry and the manufacturing sector as a whole. But even as the potential of shale reserves becomes better understood, proposals to either constrain natural gas production or distort natural gas markets are a growing threat. In particular, we are very concerned about the New Alternative Transportation to Give Americans Solutions Act, known colloquially as the NAT GAS Act.

The NAT GAS Act aims to boost the production and use of natural gas vehicles (NGVs) by offering an estimated $5 billion in taxpayer-funded subsidies to the manufacturers and equipment suppliers who produce NGVs, and the consumers who buy them.

The NAT GAS Act is misguided policy for several reasons. First, it would create a massive new subsidy for a market that is already developing on its own in sectors where the economics support it, at a time when Congress is struggling to cut spending. And not only is it expensive, it's highly inefficient. A recent analysis of the bill by Ernst & Young concluded it would result in an average subsidy of $135,000 per NGV projected to come online as a result of the bill. Finally, it would negatively impact consumers, both residential and industrial, because subsidies like those proposed in the NAT GAS Act can artificially inflate prices.

Experts agree that America has plentiful natural gas resources. At the same time, demand for natural gas is forecast to grow significantly in the coming decades as many electricity generators retire coal-fired power plants and bring new natural gas-fired plants online. By artificially creating demand for natural gas that cannot respond to market fundamentals, policies like the NAT GAS Act inject volatility into markets. We would note that at the same time Congress is considering mandating new demand for projected natural gas resources, many federal and state lawmakers and regulators are promoting policies that constrain natural gas production both on and offshore.

A return to volatile natural gas markets, similar to those the U.S. experienced in the previous decade, 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. This renaissance has the potential to drive growth throughout our manufacturing sector, increase U.S. exports and put hundreds of thousands of Americans back to work.

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Natural gas is the primary raw material, or feedstock, used by the chemical industry to create ingredients for 96 percent of all manufactured goods Americans purchase and use daily. To put it simply, natural gas is to the chemical industry, and chemical products are to manufactured goods, as flour is to a bakery. Stable feedstock costs for the chemical industry mean greater certainty for other manufacturers which helps keep consumer prices low and leaves more resources available for expansion and hiring throughout the economy.

Abundant, reliable domestic shale gas has been a "game changer" for the domestic chemical industry. For the first time in years, U.S. chemical manufacturers have a competitive advantage over foreign chemical producers who rely primarily on petroleum-based feedstocks because domestic natural gas prices have stabilized, while world oil prices have spiked. This advantage is helping to drive growth in U.S. chemical exports.

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.

These investments will generate new, high-paying jobs in the chemical industry and hundreds of thousands more throughout the economy. A recent American Chemistry Council study found reasonable increases in shale gas production 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.

But as anyone who owns a business knows investment decisions are based on certainty and positive view of the future. By injecting volatility into natural gas markets, policies like the NAT GAS Act undermine the certainty chemical companies need to justify new investments and create jobs.

Our nation desperately needs a comprehensive energy plan that promotes energy diversity, including renewables and alternative sources, energy efficiency and domestic production of oil and gas. Proposals like the NAT GAS Act which put investment, competitiveness and job creation in domestic manufacturing at risk are not the answer.

Sincerely,

Inga Carus
President and CEO
Carus Corporation

Charles E. Bunch
Chairman and CEO
PPG Industries, Inc.

Michael E. Campbell
Chairman, President and CEO
Arch Chemicals, Inc.

James L. Gallogly
CEO
LyondellBasell Industries

Andrew N. Liveris
Chairman and CEO
The Dow Chemical Company

Randall S. Dearth
President and CEO
LANXESS Corporation

John J. Paro
Chairman, President and CEO
The HallStar Company

James P. Rogers
Chairman and CEO
Eastman Chemical Company

Craig O. Morrison
Chairman, President and CEO
Momentive Performance Materials Holdings LLC

James Harton
President
Rhodia, Inc.

Pierre R. Brondeau
Chairman, President and CEO
FMC Corporation

cc: All Members of Congress