

## **Exporting Liquefied Natural Gas Would be Immediate Economic Boon for New Mexico**

**By Paul J. Gessing  
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### **Introduction**

If the Obama Administration approves liquefied natural gas (LNG) exports to non-free trade nations (those that do not have separate trade agreements with the United States), New Mexico could see an immediate increase in economic output of \$200 million and the addition of 2,000 jobs according to a new Rio Grande Foundation analysis of publicly-available data.

To come to its conclusions regarding the jobs and economic input of natural gas exports, the Foundation relied on data available from IHS Global Insight which stated that “exports would create over 100,000 direct, indirect, and economy wide jobs and have an immediate impact resulting in between \$3.6 and \$5.2 billion in potential revenues.<sup>1</sup>”

According to the US Energy Information Administration, New Mexico produces 5.3 percent of total US natural gas,<sup>2</sup> thus making it likely that New Mexico would experience a similar ratio of economic benefits.

As Figure 1 below illustrates, these 2,000 new jobs would be enough to qualify the LNG export activity resulting from liberalized trade as the 5<sup>th</sup>-largest private employer in New Mexico.<sup>3</sup> Of course, as the market for New Mexico-produced natural gas grows, the number of jobs could skyrocket.

**Figure 1.**

	<b><u>New Mexico's Largest Private-Sector Employers</u></b>	<b><u>Employees</u></b>
1	Presbyterian Healthcare Services (not for profit)	9,500
2	Intel Corporation	3,300
3	PNM Resources Inc	3,000
4	Lovelace Medical Centers & Health Plan	2,736
5	Smith's Food & Drug Stores	2,350
<b>6</b>	<b>Initial Impact of LNG Exports</b>	<b>2,000</b>
7	Wells Fargo Bank of New Mexico	1,900

<sup>1</sup> United LNG Export Operations Expected To Bring Economic And Trade Improvements to the U.S., <http://www.wset.com/story/21953206/united-lng-export-operations-expected-to-bring-economic-and-trade-improvements-to-the-us>

<sup>2</sup> <http://www.eia.gov/state/?sid=NM>

<sup>3</sup> [http://nmnetlinks.com/cms/kunde/rts/nmnetlinkscom/docs/1044065435-01-19-2011-18-16-39/xls\\_upload.htm](http://nmnetlinks.com/cms/kunde/rts/nmnetlinkscom/docs/1044065435-01-19-2011-18-16-39/xls_upload.htm)

## What's the Problem?

The principles of free trade and commerce along with the professed desire of America's political leaders to close our nation's trade deficit – averaging between \$40 and \$50 billion per month – might lead the casual observer to believe that the Obama Administration would be enthusiastic about exporting a portion of America's bounty of clean natural gas.<sup>4</sup> Instead, the issue has generated heated debate pitting some environmentalists and manufacturers who oppose exports against producers and free trade supporters who wish to allow exports.

The Sierra Club which as recently as 2009, supported natural gas<sup>5</sup> as a cleaner alternative to other energy sources, did a 180 degree turn and is now financing a campaign called "Beyond Natural Gas."<sup>6</sup> Other environmental lobby groups have opposed LNG exports as well.

Opposition to exports from a well-funded environmental lobby is complemented by well-organized opposition from Dow Chemical and other manufacturers for whom natural gas is a feedstock for manufacturing. These groups have organized "America's Manufacturing Advantage," an organization that, broadly-speaking, wishes to restrict the potential international trade in natural gas.<sup>7</sup>

The idea is that by keeping natural gas on-shore where the price is just over \$4 per MBTU as opposed to \$17 in Japan and \$12 in Europe,<sup>8</sup> these businesses (and America as a whole) will see greater economic prosperity. Of course, having an inherent cost advantage over your competitors when it comes to a primary feed-stock could lead to increased profits, but profits for one business are not necessarily good for the entire US economy.

To determine whether or not it makes sense to open LNG exports to other nations or not, policymakers must look at the broad array of principles and economic impacts. It is not enough to make the case that one state or several states will see positive impacts, nor is it enough that one or more corporations will see economic benefits from export restrictions.

## Arguments for LNG Exports

- Principled Support for Free Trade: Being a nation of principles is often underrated, but it is one of the building blocks of America's greatness. The United States is among the most open nations in the world when it comes to trade. Expanding upon that principled

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<sup>4</sup> United States Balance of Trade, Trading Economics, <http://www.tradingeconomics.com/united-states/balance-of-trade>.

<sup>5</sup> Ben Casselman, "Sierra Club's Pro-Gas Dilemma," *Wall Street Journal*, December 22, 2009, <http://online.wsj.com/article/SB126135534799299475.html>.

<sup>6</sup> <http://content.sierraclub.org/naturalgas/>

<sup>7</sup> America's Energy Advantage, <http://www.americasenergyadvantage.org/pages/about>.

<sup>8</sup> Kurt Cobb, "Do High Natural Gas Prices Mean the Shale Boom is Ending?" *The Christian Science Monitor*, March 26, 2013, <http://www.csmonitor.com/Environment/Energy-Voices/2013/0326/Do-high-natural-gas-prices-mean-the-shale-boom-is-ending>.

position in support of free trade makes sense and will increase respect among other nations with whom we trade or wish to trade.

- Economic Development/Job Growth: As noted above, LNG exports would generate 100,000 direct, indirect, and economy wide jobs and have an immediate impact resulting in between \$3.6 and \$5.2 billion in potential revenues. These initial estimates could rise dramatically as the LNG export industry grows and expands;
- Reduced carbon emissions: Natural gas emits approximately half the carbon of coal and a fraction of the sulfur dioxide, nitrogen oxides, and particles such as ash <sup>9</sup>;
- Closer ties with potential customers: Japan, India, Czech Republic, Hungary, and Greece, just to name a few nations, would be prime markets for LNG exports from the United States;
- Reduced trade deficits: The United States currently runs a \$6 billion trade deficit with Japan.<sup>10</sup> That nation is particularly eager to import LNG from the US due to the nuclear accident at Fukushima<sup>11</sup>;
- Strengthened foreign policy position: Over the past couple of years, Russia has shut off pipelines to Europe several times ostensibly over pricing disagreements. The underlying motive is to send a signal to Europe that [Russia] has leverage over them. Increased US exports of LNG will reduce Russia's ability to bully its neighbors<sup>12</sup>;
- Minimal Price Increases: Despite potentially-massive demand for US LNG, American consumers and manufacturers would likely see minimal negative impacts. This, according to an estimate from Deloitte which has found that U.S. gas prices would rise an average of 15 cents per million BTU, or about 3.75 percent if gas producers are permitted to export 6 billion cubic feet of gas per day;<sup>13</sup>

### Counter-Arguments

- Low natural gas prices are advantage for US-based manufacturing: According to the anti-export group America's Energy Advantage, for every \$1 of manufactured products, there

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<sup>9</sup> Environmental Protection Agency, "Clean Energy," <http://www.epa.gov/cleanenergy/energy-and-you/affect/air-emissions.html>.

<sup>10</sup> US Census Bureau, "Trade in Goods with Japan," <http://www.census.gov/foreign-trade/balance/c5880.html>.

<sup>11</sup> Tsuyoshi Inajima & Sally Bakewell, "Abe will ask Obama for Shale Exports as Gas Bill Soars," *Bloomberg*, February 20, 2013, <http://www.bloomberg.com/news/2013-02-20/japan-s-abe-plans-to-ask-obama-to-approve-shale-gas-exports.html>.

<sup>12</sup> Meg Handley, "Natural Gas Exports, a Geopolitical Game-Changer?" *US News & World Report*, March 5, 2013, <http://www.usnews.com/news/articles/2013/03/05/natural-gas-exports-a-geopolitical-game-changer>.

<sup>13</sup> Jeff McMahon, "LNG Exports Would Have Minimal Impact on US Prices: Deloitte," *Forbes*, April 17, 2013, <http://www.forbes.com/sites/jeffmcmahon/2013/04/17/lng-exports-would-have-minimal-impact-on-u-s-prices-deloitte/>.

is an additional \$1.34 in additional output from other sectors of the economy. No one is denying the positive impact of manufacturing, but this does not make the economic case against LNG exports. It seems likely that the US can both increase manufacturing capacity *and* export large quantities of LNG;

- **Fracking is bad!** Much of the America's boom in natural gas production has been fueled by improvements in the use of a process called hydraulic fracturing (fracking). The process has been used since the 1940s but modern information technology and imaging have made the process more effective.<sup>14</sup>

Environmentalists have latched on to alleged threats from this process despite assurances from none other than Lisa Jackson, President Obama's EPA Administrator who stated before the US House Oversight and Government Reform Committee, "I am not aware of any proven case where the 'fracking' process itself affected water..."<sup>15</sup>

### Conclusion

New Mexico has everything to gain from LNG exports. There are plenty of arguments favoring exports when it comes to our state and the arguments counter to LNG exports don't really apply to our state. After all, New Mexico is not a major manufacturing state. This is unlikely to change regardless of LNG exports.

Also, even if the worst-case environmental fears regarding drinking water and 'fracking' are realized some day, New Mexico's underground water is found at depths that make it unlikely that it would even come in contact with 'fracking' operations.<sup>16</sup>

So, why do natural gas prices remain depressed and why have producers like ConocoPhillips said they will suspend drilling operations in New Mexico?

Simply put, there is one major road block in the way, the Obama Administration. According to *Bloomberg News*, the Obama administration is currently debating whether to allow these producers to export liquefied natural gas to countries with which the U.S. has no free-trade agreement. Until the Administration makes a decision, investments in the infrastructure necessary to export large amounts of natural gas from New Mexico will not be made.

The good news is that New Mexico's Congressional delegation appears to be united in support of LNG exports. At least New Mexico's Democratic Sens. Udall and Heinrich have signed on to

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<sup>14</sup> Nicolas Loris, "Hydraulic Fracturing: Critical for Energy Production, Jobs, and Economic Growth," Heritage Foundation, August 28, 2012, <http://www.heritage.org/research/reports/2012/08/hydraulic-fracturing-critical-for-energy-production-jobs-and-economic-growth>.

<sup>15</sup> *Ibid.*

<sup>16</sup> Devon Energy, "Hydraulic Fracturing: a 60-year track record of safety," <http://www.dvn.com/CorpResp/initiatives/Pages/HydraulicFracturing.aspx#terms?disclaimer=yes>.

LNG exports and the lone Republican in the State's Congressional delegation, Rep. Pearce, has done the same.<sup>17</sup>

The point of this article is first-and-foremost to educate. New Mexicans uniquely benefit from the jobs and tax revenues associated with natural gas production and could benefit to an even greater extent if the Obama Administration embraces free trade in natural gas.

This article is meant to agitate as well. "Big Business" and "Big Green" are swarming Capitol Hill and the White House making the special-interest case against free trade and the economic prosperity of New Mexicans. We need average New Mexicans, the oil and gas industries, and our elected leaders including Gov. Martinez and legislators to start making the case that free trade in natural gas will be a good thing for the Land of Enchantment and its people.

Our state has been poor for too long. That poverty exacerbates negative trends in areas as diverse as education, health, safety, and individual self-esteem. The boom in natural gas is a once-in-a-generation opportunity to embrace an economic trend that is clearly working in our favor.

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<sup>17</sup> Rob Nikolewski, "Udall, Heinrich and Pearce approve of potential natural gas deal with Japan, environmental group 'disappointed,'" *Capitol Report New Mexico*, April 12, 2013,