LNG Allies™
THE US LNG ASSOCIATION

September 17, 2018

The Honorable Wilbur Ross
Secretary of Commerce
U.S. Department of Commerce
1401 Constitution Avenue N.W.
Washington, DC 20230

Dear Secretary Ross:

Earlier this year, LNG Allies wrote to you requesting that steel used in U.S. LNG export facilities be granted a blanket exclusion from the Sec. 232 tariffs. We are writing with urgency today to reiterate that request in light of the revised interim final rule implemented on Sept. 11, 2018.

We greatly appreciate that the Department responded to some of the concerns raised by steel consumers during the comment period on the initial interim final rule, in particular, the willingness of the Department to bring greater efficiency and transparency to the product exclusion process and to protect proprietary data.

However, the fact remains that the nascent U.S. LNG export industry is in need of different relief than can be granted through product-by-product exclusion requests.

The U.S. LNG export industry is being built in two (or more) "waves." The first wave includes six projects under construction—with most steel products already ordered and delivered. The second wave of projects includes 17 new projects and incremental additions to four of the projects under construction. The total capital cost for these projects is estimated at ≈$125–$150 billion creating up to 3.9 million jobs-years and $3.9 trillion in GDP growth.

It is the 19 facilities included in the second wave that are relevant to this discussion.

Six of those facilities have received all necessary permits from the Federal Energy Regulatory Commission (FERC) and the Department of Energy (DOE). These projects are ready to proceed to a final investment decision (FID), but have not done so due to uncertain global market conditions—which have been greatly exacerbated by the steel tariffs and other trade tensions (e.g. the U.S.-China dispute). The other 13 projects in the second wave are expected to receive their FERC and DOE licenses by mid-2019 to early 2020.

This means that over the next two years each of the 19 projects in the second wave of U.S. LNG export facilities will need to develop a final engineering design as a prerequisite to a final investment decision.

The uncertainty posed by the steel tariffs and the need for each individual company to apply for dozens if not hundreds of product exclusions will slow and significantly impair the second wave of U.S. LNG export projects. Therefore, we firmly believe that the only way to treat all U.S. LNG export projects fairly is to grant all of them a blanket exclusion from the Sec. 232 steel tariffs. To do otherwise will greatly distort the market, favoring certain projects over others.

The Department appears to have opened the door for this request by the following statement included within the second interim rule:

> "The need for specificity is why each individual or company needs to respond, as opposed to trade associations. The Secretary does have the discretion to make broader exclusions available to all importers if the Department finds the circumstances warrant, and the Secretary will exercise this discretion as appropriate." (Page 38)

We believe that the unique circumstances of the U.S. LNG export business represent precisely the kind of situation which warrant a broad, industry-wide exclusion. The federal government ought to be looking for every possible means to incentivize this new industry. Unfortunately, the steel tariffs do just the opposite.

The global natural gas market is fierce and the United States must be the lowest cost supplier if we are to win against competitors who often pay nothing for their gas until their capital costs have been recovered.

Of course America must earn its place in this market and adding a raw material tax on the front end—coupled with the artificially-created 20% price hike that has occurred since the tariffs were announced—will add pennies to each unit of LNG to be produced. And, pennies do make the difference in securing LNG sales contracts.

Mr. Secretary, the U.S. LNG industry stands at a critical juncture. When complete, the projects now under construction will put the United States in third place globally (behind Qatar and Australia). It is the second wave of LNG export projects that will enable the United States to truly achieve energy dominance.

On behalf of the U.S. LNG export industry, thank you for your consideration of this request. We look forward to finding a mutually convenient date and time for us to meet with you in person to discuss this matter at greater length.

Sincerely,

Fred H. Hutchison
President & CEO