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Domestic Supply and Exports Forum
May 21, 2013

Sempra Energy is a San Diego-based Fortune 500 energy services holding company. With nearly 17, 000 employees – 14,000 of whom are in the United States – the Sempra Energy companies develop energy infrastructure, operate utilities, and provide related products and services to more than 31 million consumers in the U.S., Mexico, and South America. Sempra Energy's California utilities, San Diego Gas & Electric Co. and Southern California Gas Co., serve more than 20 million consumers. Our other businesses – Sempra U.S. Gas & Power and Sempra International – develop and operate critical energy infrastructure, including liquefied natural gas (LNG) terminals, and provide gas and electricity services in North America and South America.

As the developer of the Cameron LNG Liquefaction Project in Louisiana, Sempra is pleased to share its perspective and recommendations on today's topic of domestic natural gas supplies and exports. Sempra is an experienced LNG terminal operator. Sempra companies operate two existing LNG import terminals in North America – Cameron LNG in Hackberry, Louisiana and Energia Costa Azul near Ensenada, Mexico. The Cameron LNG receipt terminal is situated along the Calcasieu Ship Channel in southwest Louisiana. The terminal is strategically located near a major pipeline hub that serves nearly two-thirds of all U.S. natural gas markets and has a history of safe and reliable operations.[1]

In 2011, based on the improved outlook for domestic natural gas production, Sempra made the decision to pursue modification of the existing Cameron LNG terminal to allow for exports of natural gas. The project represents smart growth, as it expands an existing import terminal situated on a 260-acre industrial-zoned site along the Calcasieu Ship Channel. Once completed, the liquefaction facility is expected to be comprised of three liquefaction trains with a total export capability of approximately 1.7 billion cubic feet per day (Bcfd), or 12 million tonnes per annum (Mtpa). Our goal is to have the Cameron LNG Export facility in operation by 2017.

The window of time for the United States to act on LNG exports is narrow, and it is now. The financing, planning, and construction of LNG export facilities require long lead times and further delay could jeopardize proposed export projects and risk losing the potential net benefits that LNG exports can provide to the United States.

Sempra's Cameron LNG Liquefaction Project represents a $6 to $7 billion investment. This expansion reflects our strong belief that the United States has an abundant supply of

[1] In 2003, the Federal Energy Regulatory Commission (FERC) approved construction of the Cameron LNG receipt terminal to accept up to 1.5 billion cubic feet per day (Bcfd) of regasified LNG to send to domestic markets. In 2007, FERC authorized Cameron LNG to accept up to 1.8 Bcfd as its maximum capacity. In July 2009, construction was completed and Cameron LNG receipt terminal was placed into service.

natural gas. As President Obama said in his 2013 State of the Union address, and as has been reported in numerous government and private studies, the U.S. has more than a 100-year supply of natural gas. This abundant supply can provide consumers stable affordable prices, even with some gas being exported to America's trading partners. In fact, this conclusion that LNG exports would result in negligible price increases for U.S. consumers has been repeatedly confirmed in various studies, including the NERA study commissioned by the Department of Energy (DOE).

DOE's NERA Study Supports LNG Exports

The Department of Energy, last year, commissioned NERA Economic Consulting to analyze the impact of LNG exports on the U.S. economy under a wide range of different assumptions about levels of export, global market conditions, and the cost of producing natural gas in the United States. The various scenarios that NERA developed and analyzed ranged from normal economic conditions to several variations of "stress cases," including those with high costs of producing natural gas in the United States and markedly increased demand for U.S. LNG in foreign markets. Export limits were set at levels that ranged from no exports to unconstrained exports for each of the scenarios. Under every scenario examined by NERA, the United States is expected to realize net economic benefits from natural gas exports. Moreover, those benefits increase as the level of exports increases.

While the NERA Study identifies the macro economic benefits, the creation of jobs and taxable revenue come from several sources. First, LNG exports provide the opportunity for natural gas producers to produce and sell more natural gas, and respond to market signals. Second, the increased production will produce additional employment as those facilities need to be constructed and operated over a 20 year or more timeframe. Third, exports of products from the United States, in this case natural gas, improve the U.S. balance of trade, which results in a transfer of wealth from foreign countries to the United States. Fourth, construction of the liquefaction facilities will require financing and, to the extent such financing comes from outside the United States, will bring additional wealth into the United States from foreign countries.

LNG Exports Lead to Increased Jobs and Economic Growth

As the Center for LNG (CLNG) has explained, selling some of America's abundant natural gas resources in global markets represents a major opportunity for the United States to create thousands of new jobs, grow our manufacturing base, generate billions of dollars in additional royalties and new government revenues, and expand the benefits of U.S. trade. Focusing first on jobs, the development of natural gas and LNG export terminals holds the promise of good jobs. At a January 2013, CLNG Hill briefing, Brad Karbowsky of The United Association of Plumbers, Fitters and HVAC Techs said:

> *LNG terminals are multi-billion dollar investments that require a highly trained and skilled workforce to build. LNG facility construction will employ thousands of my brothers and sisters in the labor movement for many years to come as well as provide opportunities for new apprentices. The billions of dollars in wages*

> *generated by these well-paying jobs will be multiplied throughout communities across the country in the form of investment and taxes, which will in turn be used to support schools, fire stations and other essential public services. This new source of shared prosperity will provide a foundation for future growth.*[2]

Jobs would not only be created at each new U.S. LNG facility, but throughout the value chain – in natural gas production, the steel industry, turbine manufacturing, pipefitting, and in many other industries – which would help communities across America.
Sempra notes that LNG exports are consistent with the President's National Export Initiative to expand exports to create "good high-paying jobs" as well as "sustainable economic growth." Each LNG export terminal will generate millions of dollars in new tax revenue for the federal, state and local governments, which can help fund vital public services and reduce public debt.

Thanks to technological advances, the United States has enough natural gas not only to meet growing American consumer demand, but also to export some supply in the form of LNG without significantly impacting domestic prices or impeding the manufacturing renaissance. In fact, LNG exports and the liquefaction facilities are anchored by 20-year contracts, which means that the jobs created are long-term jobs along the entire natural gas value chain.

LNG Exports Can Complement the Manufacturing Renaissance

LNG exports can also provide a benefit to the domestic manufacturing that relies on natural gas, such as the chemical industry. However, because natural gas prices have become so low – down to one-third of prices just a few years ago – many oil and natural gas producers have ceased drilling natural gas and have turned to more profitable oil production instead. In North Dakota, it is estimated that producers are flaring up to one-third of the dry gas because of depressed prices and a lack of gathering infrastructure. Investment in exploration and production will stay low if there is no additional demand for natural gas. By increasing demand for LNG from the U.S. and providing the U.S. LNG to the largest LNG market available, it will stimulate the investment in natural gas production in the long-term that helps supply domestic manufacturing and provide greater price stability.

According to testimony filed by David Mallino Jr. of the Laborers International Union of North America for an April 25, 2013, hearing by the House Committee on Foreign Affairs:

> *The export of LNG can help drive additional U.S. natural gas production and support hundreds of thousands of additional U.S. jobs in engineering, manufacturing, construction, and operation of the export infrastructure, as well as others indirectly along the equipment supply chain." Flexibility to export product in times of*

[2] http://www.lngfacts.org/recent-news/clng-small-business-and-labor-leaders-dominion-and-ge-hold-joint-staff-briefing-to-discuss-support-for-lng-exports/.

> *market imbalance can help the industry operate efficiently and maintain production levels. This enhances US energy and economic security.*[3]

In addition to helping sustain stable levels of production, LNG exports can help drive more diverse supply within the United States. Diversified supply will in turn also provide price stability domestically, which will benefit all domestic consumers of natural gas. Increased gas production, based on the shale gas revolution, will help increase the production of natural gas liquids (NGLs) like ethane, Liquefied Petroleum Gas (LPG also known as propane, butane/iso-butane), and condensate. A significant increase in NGLs will benefit the petrochemical, industrial, and transportation sectors.

Given our abundant domestic natural gas resources, maximizing domestic use of natural gas is not in conflict with LNG exports and in fact encourages the long term investment in America's natural gas infrastructure that would be in the hundreds of billions of dollars over the next decade. Note also that the NERA Study found that neither the output nor the employment of energy-intensive domestic manufacturing sectors would be significantly affected by LNG exports. According to the NERA Study, "In no scenario are energy-intensive industries as a whole projected to have a loss in employment or output greater than 1% in any year, which is less than normal rates of turnover for employees in the relevant industries."[4]

According to the Brookings Institution, petrochemical producers will continue to enjoy a stable competitive environment regardless of the natural gas export policy adopted in the United States because producers in Asia and Europe use oil-based products as feedstock:

> *Today the ratio of the price of oil to the price of natural gas is over 30:1, well over the 7:1 oil-to-gas price ratio at which US petrochemical and plastics producers are generally considered to be globally competitive.*[5]

LNG Exports Provide Geopolitical Benefits

Sempra believes that LNG exports can also yield substantial geopolitical benefits. Through the exportation of natural gas, the U.S. can enhance its ties with important trading partners and can reduce negative forces from constraining natural gas supplies as a political tool.

The United States has been a world leader with respect to promoting free trade among nations, and has consistently urged other countries to open its borders to allow access to U.S. products and services in a fair and competitive environment. Historically, the United States and its trading partners have engaged in healthy and competitive trading that has helped fuel innovation, created new opportunities for economic growth, and

[3] http://docs.house.gov/meetings/FA/FA18/20130425/100776/HHRG-113-FA18-Wstate-MallinoD-20130425.pdf.
[4] NERA Study at p. 12.
[5] http://www.brookings.edu/research/articles/2013/02/us-lng-exports-ebinger-avasarala.

brought together people and cultures that have a common interest in promoting free markets.

The export of domestically-produced LNG will promote liberalization of the global gas market by increasing liquidity and trade at prices established by market forces. The current international trade in natural gas centers around three primary markets: North America, Europe, and Asia. There is substantial natural gas trade within these markets, but limited trade among the markets. The pricing structure in the U.S. market is significantly different from that in Europe and Asia. In North America, natural gas is traded in a highly liquid and competitive market, and prices are very transparent. In the European and Asian markets natural gas prices are linked to the value of competing crude oil products. LNG contracts for these markets also are predominantly indexed to crude oil. Current global supply shortages of LNG are having adverse impacts for the United States' closest allies in Asia and Europe.

According to Michael Levi, energy security expert at the Council on Foreign Relations, the surge in U.S. shale gas production has already had major consequences for geopolitics. The sudden change in resources fortunes for the United States, from being a likely importer of natural gas to an exporter, left Middle Eastern and North African LNG exporters with a surplus, "creating intense competition in the European market and increasingly forcing Russia to sell its natural gas on transparent, market-based terms," Levi said. "Even the possibility of significant U.S. natural gas exports will help sustain pressure on Russia," he said, and even small amounts of spot exports into Asia will give customers "leverage" in negotiating longer-term LNG contracts that are now oil linked.[6]

Inaction, however, diminishes this supply pressure because LNG-consuming nations have no choice but to further extend their reliance on energy from Russia and the Middle East if the U.S. does not process applications or limits LNG exports to non-free trade agreement (non-FTA) countries. For example, the *New York Times* reported recently that Gazprom, Russia's state-controlled gas monopoly, has finalized an agreement with Japan that includes construction of a $13 billion natural gas terminal.[7] Important trading partners like Europe and Japan need to secure long-term supplies now and cannot simply wait for the U.S. to take action. By providing some LNG to its allies, the U.S. can improve its geopolitical position and limit the influence of countries that have used energy supply as a political weapon.

[6] http://interfaxenergy.com/natural-gas-news-analysis/energy-news-analysis/lng-exports-and-the-us-geopolitical-position/.
[7] http://www.nytimes.com/2012/09/09/world/europe/russia-and-japan-move-forward-on-natural-gas-deal.html?_r=0.

LNG Exports are Consistent with our Free Trade Policy

From an international trade perspective, if the United States were to act contrary to past policy by restricting exports of LNG, it could ultimately be detrimental to many segments of the domestic manufacturing industry. According to testimony filed by Michael Ratner, Specialist in Energy Policy for Congressional Research Service, for an April 25, 2013, hearing by the House Committee on Foreign Affairs:

> *As a member of the World Trade Organization (WTO), the United States could be subject to cases under the General Agreement on Tariffs and Trade's General Prohibition Against Quantitative Restraints if exports were limited. While certain exemptions from this prohibition may be granted, export restrictions [on natural gas] may put the United States in a contradictory position vis-à-vis cases it has brought to the WTO.*[8]

The U.S. has challenged other countries' export prohibitions because such restraints hinder competition and innovation, limit global income growth, and often result in retaliatory policies. For example, the U.S. has been a lead opponent against China's restrictions on raw material exports and China's restraints on rare earth exports. The U.S. already won its WTO case against China regarding raw materials, arguing that China's restrictions on exports of raw materials that were used to make steel and other industrial products gave Chinese producers an unfair advantage by depressing domestic prices for those goods. The U.S. Trade Representative's October 2012 legal brief said that:

> *The export restrictions can increase supplies in China's domestic market, driving down the prices that Chinese producers would otherwise pay for these same inputs. Not only does this dynamic create tremendous advantages for Chinese producers vis-à-vis non-Chinese producers, but it also places strong pressure on non-Chinese producers to move their operations, technologies and jobs to China.*[9]

It would be hypocritical and contrary to our free trade principles to restrict, or even be perceived as restricting, LNG exports. Such a protectionist stance might injure the larger U.S. economy in the long run as other nations follow suit and restrict key inputs to U.S. manufacturing.

Opportunities to Export LNG from the United States Are Limited

To date, 19 projects representing about 26 Bcfd of capacity have requested authority from DOE to export natural gas to non-FTA countries. However, total incremental global market demand for LNG between 2018 and 2025 is estimated to be 21 Bcfd. Multiple studies have demonstrated that the United States can only capture a portion of this market Global competition from natural gas-rich countries such as Canada, Australia, Qatar and Russia – which are rapidly moving forward with development of new export capacity – will limit demand for natural gas from the U.S.

[8] http://docs.house.gov/meetings/FA/FA18/20130425/100776/HHRG-113-FA18-Wstate-RatnerM-20130425.pdf.
[9] http://www.reuters.com/article/2013/01/31/usa-trade-lng-idUSL1N0AZMTU20130131.

Kenneth Medlock, an energy expert from Rice University, has explained that domestic and international gas markets will determine the economically efficient amount of gas to export. Market-determined boundaries will be imposed given the costs of producing, processing, and transporting LNG, and the competitive nature of the global market. LNG export facilities are capital intensive and can cost tens of billions of dollars to construct. Financing for these terminals is limited and requires experienced partners and long-term agreements. These financing partners require confidence that a project will be profitable over the life of the facility.

In addition, export opportunities from Canada and Mexico will eventually materialize if the U.S. does not move forward with liquefaction projects located on U.S. soil. The irony is that the Canadian and Mexico export projects would have exactly the same effects on the U.S. natural gas market without any of the benefits of the direct infrastructure investment.

LNG Export Applications Pending at DOE

The United States has made a remarkable transition from being a net importer of natural gas to becoming one of the world's top producers of natural gas. Now, the U.S. has a rare opportunity to be an early mover in the global competition to supply natural gas to growing world markets. Other countries are gearing up to compete with the U.S. and meet that demand. If the U.S. unnecessarily hesitates, potential export customers will look to other countries to supply LNG, and all the possible benefits to our economy and energy security will be missed.

Sempra strongly encourages DOE to act promptly on the non-FTA applications pending before it.[10] As one of the pending non-FTA applicants, Cameron LNG understands that DOE must apply the public interest test to all the non-FTA applications. This public interest analysis by DOE is a far cry from what some have suggested was an "unfettered" DOE permitting process.

As explained recently by Acting Assistant Secretary Smith of DOE's Office of Fossil Energy at a March 19, 2013, House Oversight and Government Reform Committee hearing, DOE's authority to regulate the export of natural gas arises under Section 3 of the Natural Gas Act (NGA), 15 U.S.C. § 717b, and section 301(b) of the DOE Organization Act, 42 U.S.C. § 7151. This authority is vested in the Secretary of Energy and has been delegated to the Assistant Secretary for Fossil Energy. Section 3(a) of the NGA sets forth the standard for review of most LNG export applications:

[10] Sempra notes that applications to export LNG to FTA countries are statutorily deemed as in the public interest, pursuant to Section 3(c) of the Natural Gas Act. There are currently 18 countries with which the United States has in place free trade agreements that require national treatment for trade in natural gas for purposes of the Natural Gas Act. These 18 countries include: Australia, Bahrain, Canada, Chile, Colombia, the Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore. There also are two countries — Israel and Costa Rica — that have free trade agreements with the United States that do not require national treatment for trade in natural gas for purposes of the Natural Gas Act.

> *[N]o person shall export any natural gas from the United States to a foreign country or import any natural gas from a foreign country without first having secured an order of the [Secretary of Energy] authorizing it to do so. The [Secretary] shall issue such order upon application, unless after opportunity for hearing, [he] finds that the proposed exportation or importation will not be consistent with the public interest. The [Secretary] may by [the Secretary's] order grant such application, in whole or part, with such modification and upon such terms and conditions as the [Secretary] may find necessary or appropriate.*

Section 3(a) thus creates a rebuttable presumption that a proposed export of natural gas is in the public interest. Section 3(a) also authorizes DOE to attach terms or conditions to the order that the Secretary finds are necessary or appropriate to protect the public interest. Under this provision, DOE performs a thorough public interest analysis before acting.

Acting Assistant Secretary Smith explained that DOE applies a wide range of criteria as part of the public interest test, including:

- Domestic need for the natural gas proposed for export;
- Adequacy of domestic natural gas supply;
- U.S. energy security;
- Impact on the U.S. economy (GDP), including impact on domestic natural gas prices;
- International considerations; and
- Environmental considerations.

Smith also explained that these non-statutory criteria have been developed over several decades and supplemented and refined by subsequent agency adjudication. He emphasized that these criteria are not exclusive. Other issues raised by commenters and/or interveners or DOE that are relevant to a proceeding may be considered as well.[11] Similarly, at a hearing before the Senate Energy and Natural Resources Committee on November 8, 2011, then-Deputy Assistant Secretary Smith said that a "wide range of criteria" are considered as part of DOE's public interest review process, including the same criteria listed above and the following additional items:

- Jobs creation;
- U.S. balance of trade;
- Consistency with DOE's long-standing policy of promoting competition in the marketplace through free negotiation of trade arrangements; and

[11] http://oversight.house.gov/wp-content/uploads/2013/03/Smith-Testimony-3-19-LNG-COMPLETE.pdf.

- Other issues raised by commenters and/or interveners deemed relevant to the proceeding.[12]

Since last year, DOE/FE has placed a *de facto* moratorium on the approval of natural gas export permits to non-free trade agreement countries. During that time, DOE/FE has conducted its two-part LNG Export Study and others such as the Brookings Institution, the Baker Institute, and Deloitte have conducted further studies that all have reiterated the basic conclusion that LNG exports will not significantly affect natural gas prices.

Sempra maintains that DOE has a rational and thorough set of criteria to apply; has taken the adequate time to study the issues; has considered an exhaustive amount of public input; and should move promptly to act on the pending non-FTA LNG export applications.

Status of Cameron LNG Export Project at DOE

On December 27, 2011, Cameron filed an application at DOE for authority to export LNG to non-FTA nations. Cameron already has authority to export LNG to FTA countries. According to the DOE Order of Precedence for Processing non-FTA Application (DOE Queue), the Cameron LNG application is listed as the fifth out of 16. The DOE Queue represents DOE's plan for the order in which it will process applications.

DOE has stated it will act first upon applications for which the applicants have commenced the federal environmental review process at FERC and in the order in which the DOE received non-FTA export applications. Sempra understands that DOE had to establish some kind of queue to move forward. We respectfully suggest that in addition to simply reviewing applications in the order they were submitted there are other important attributes that would be sensible and objective for the DOE to consider and that fall within the DOE's public interest review criteria.

Sempra believes that DOE should focus its resources on the applications that can demonstrate an ability to reach market reality and where the United States could reap economic benefits immediately. Project viability can be demonstrated in various ways, such as consideration of status in the Federal Energy Regulatory Commission (FERC) permitting process; commercial partnerships and arrangements; and state and local support.

Cameron Liquefaction is First in FERC Review Queue

Sempra initiated the FERC pre-filing process back in April 2012. On December 7, 2012, after completion of its mandatory pre-filing process that included engineering and environmental analysis, Cameron filed an application with FERC to construct and operate the export facilities, reaching another milestone to add natural gas liquefaction and export facilities to the existing Cameron LNG terminal.

[12] http://www.fossil.energy.gov/programs/gasregulation/authorizations/2012_applications/sierra_exhibits_12-77-LNG/Ex._02_-_Smith_D_O_E_Testimony110811.pdf.

On April 4, 2013, FERC issued a notice of its schedule for the environmental review. The Cameron LNG Liquefaction Project is the first application pending before FERC to have received a notice of its schedule for the environmental review and is the only proposed LNG export application currently pending before FERC to have reached this milestone in the permitting process. This is an indication that FERC has sufficient data and information to complete the environmental review of Cameron LNG by the end of the year.

Based on the published schedule, the final Environmental Impact Statement will be released in November 2013 and the final application should be acted on by FERC in early 2014. The Cameron LNG Liquefaction Project remains on schedule to start construction next year and begin operations in 2017 (assuming all needed permits and approvals are obtained).

Sempra suggests that DOE coordinate with FERC to ensure the agencies are spending their time and resources on those pending projects that demonstrate how they can complete the permitting hurdles.

Sempra's Cameron LNG Facility Partners and Financing

Another important attribute to consider as part of the public interest test is whether a project can demonstrate that it has the ability to obtain financing. Liquefaction facilities cost several billion dollars to complete and have long-term contracts to be viable. Cameron LNG has commercial development agreements signed with Japanese companies Mitsubishi Corporation and Mitsui & Co. Ltd., and an affiliate of French company GDF SUEZ S.A. These customers are sophisticated, financially sound global energy market participants with the experience necessary to implement large energy projects. In addition, Tokyo Electric Power Company, Japan's largest consumer of LNG, has announced its intention to enter into a long term contract to buy some of the LNG produced at the Cameron facility. In January 2013, Cameron LNG initiated a tender process for the engineering, procurement and construction contract, which is expected to be awarded in late 2013, and launched its financing process with the Japan Bank of International Cooperation, Nippon Export and Investment Insurance, and commercial banks. Cameron LNG expects to secure financing commitments for the project by late 2013 or early 2014.

Local Support and Project Benefits of Cameron LNG Export Project

The level of local citizens' support as well as benefits a project brings to the community is another aspect of the application process DOE should consider. Below are some highlights of the many benefits of the Cameron LNG Export Project:

- The Cameron LNG Project will stimulate the state, regional and national economies through job creation and increased economic activity and revenues, including the direct creation of an average of approximately 2,900 construction jobs and, indirectly, approximately 63,000 job-years over the four-year construction period.

- The Cameron LNG Project will support small businesses in Southwest Louisiana that provide services both during and after construction.
- The Cameron LNG Project has strong community support from the area's Congressional delegation, including both U.S. Senators, the Governor of Louisiana, and the region's state and local officials and community leaders.
- To date, Sempra has created more than 1,000 acres of new wetlands with a goal of creating an additional 3,000 acres of upper wetlands. The proposed project will create additional marsh wetlands before, during and after construction that will support the local plant and wildlife habitat.
- The existing Cameron LNG facility has a proven track record of safe, reliable, and environmentally responsible operations.
- Use of Cameron LNG's existing brownfield site will minimize negative environmental effects, and Cameron LNG's proposed mitigation measures are expected to yield net environmental benefits overall.

Sempra maintains that this project has all the elements to be successful: (1) an already operational LNG site with turnkey infrastructure, (2) strong commercial partners, (3) a supportive community in Louisiana, and (4) deep experience in getting projects financed, built, and operational.

Conclusion

LNG exports represent an opportunity to boost the U.S. economy with added jobs and a way to improve our current trade balance deficit. LNG exports provide an opportunity to enhance our infrastructure with additional pipelines and ports. LNG exports can provide positive geopolitical opportunities for the United States to assist European and Asian countries in diversifying their supply sources and can reduce negative forces from constraining natural gas supplies as a political weapon. From an environmental perspective, LNG exports can help promote resource diversity and increased reliance on clean burning natural gas.

To take advantage of all of these benefits, LNG export terminal investors and related stakeholders need a clear and certain regulatory path as well as consistent policies that reflect the free trade principles of the U.S. The United States has the chance to exert global leadership as the world's top producer of natural gas and must not squander the opportunity to capture the net economic benefits of LNG exports to the economy.