WRITTEN STATEMENT

OF

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GLOBAL PUBLIC AFFAIRS

ON BEHALF OF

HUNTSMAN CORPORATION

DEMOCRATIC POLICY COMMITTEE

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Good morning Chairman Dorgan and Members of the Committee. I am the Senior Vice President, Global Public Affairs for the Huntsman Corporation and work in the company's offices in The Woodlands, Texas. I thank you and the Members of the Committee for the opportunity to participate in today's discussion of the energy markets and, in particular, the speculative trading practices that currently plague the markets for natural gas. While we do not oppose efforts to increase the deliverable supply of natural gas, including by expanding storage capacities, we believe that the current problems in the natural gas markets are not due to fundamentals of supply and demand. Because of the way the markets for natural gas futures are setting the prices for natural gas, there is a compelling need to reform the current legal and regulatory framework for these vital markets.

Huntsman is a global leader in the chemical manufacturing industry. Our operating companies manufacture products for a variety of global industries, including chemicals, plastics, automotive, agriculture, and others. Today, Huntsman employs over 11,000 men and women in 57 operations located in 22 countries. Global manufacturing companies like Huntsman depend on the commodities markets for their materials and rely on fair pricing in those markets in order to be competitive both domestically and abroad.

Natural gas is a key commodity for Huntsman, as it is for thousands of other domestic businesses and millions of farmers and consumers. Every day, we use tens of thousands of mm/BTU of natural gas to fuel our plants. We buy our fuel monthly. In addition, we use ethane, propane, and butane—all derived from natural gas—to feed our crackers and, because the market prices these derivatives hourly, we must purchase these products nearly every day.

The high and volatile price of natural gas on the futures markets has imposed substantial costs on our business. Huntsman has closed manufacturing units and been forced to reduce our domestic workforce by nearly 1,500 people. Of potentially greater significance for the longer run, over the past 5 years, we have allocated all of our capital for new production expansion, totaling approximately $1 billion, to build and expand facilities overseas where natural gas prices are lower and prices are more stable.

Supplies of natural gas are locally limited by the pipeline delivery system. Huntsman has adapted its operations to purchase and take delivery of natural gas in light of these physical and geographic constraints. We buy natural gas every month based on the relationship between the spot and futures prices for the particular hub for our operations. The actual decision regarding whether to purchase natural gas on the spot market or at the current monthly contract price, which is set the final three days of trading, must be made at the end of the *prior* month. So we must decide whether to buy gas on a daily basis or accept the fixed price for the month. That key decision is complicated by the fact that the settlement price of the current month contract for the natural gas hub is not known until 5 days into the current month. In this environment, severe price volatility in the natural gas futures markets makes it impossible to establish a meaningful budget for natural gas costs.

Huntsman uses hedges to control its price risk for natural gas when we can also lock in prices with an end-use customer. However, locking in a fixed price for natural gas where prices may decline not only could result in our paying more for natural gas than our competitors, but also increases our costs because of the costs of the hedge itself. Thus, locking in prices for natural gas without the ability to lock in prices for end use products amounts to speculation. Huntsman is a manufacturer, not a speculator. We generally cannot effectively hedge against price fluctuations in the natural gas markets.

The prices paid for natural gas in the United States are typically based on prices at which natural gas futures are traded on the New York Mercantile Exchange ("NYMEX"). Huntsman believes that the market for natural gas operates most effectively when these prices are shaped by fundamental forces of supply and demand, which allocate supplies of gas within the economy most effectively, thereby benefiting producers, users of natural gas and the economy as a whole. Facilitating this pricing function is one of the primary purposes of the Commodity Exchange Act ("CEA"), which establishes the regulatory framework for trading natural gas futures both on and off the NYMEX. When this pricing function breaks down, the result often means windfall profits for speculators and serious harm to businesses, farmers and consumers, including senior citizens, who need natural gas to produce their products, grow their crops, and heat their homes and cook their food.

Since the year 2000, the natural gas markets have suffered from high prices, but, almost equally importantly, substantially increased price volatility. We believe this price volatility is impairing, rather than enhancing, the natural gas market. Day-to-day price volatility in the natural gas futures contracts traded on the NYMEX has increased substantially, by some measures as much as 60%.

Prior to the passage of the Commodity Futures Modernization Act ("CFMA"), the historic price of natural averaged $2.30 per mm/BTU. Now it is triple that amount and several times has spiked much higher than that. For example, as recently as December of 2005, natural gas futures contracts traded on the NYMEX changed hands at $15 per mm/ BTU; by the end of February of 2006, the price had plunged below $7. In April, natural gas futures prices shot up more than 20% over four trading sessions, even though there were ample supplies of natural gas in storage. On May 4, the Energy Information Administration, part of the U.S. Department of Energy, published storage data showing that the nationwide inventory of natural gas has continued to rise and far exceeds both the level from one year ago and the five-year average for this period. As the inventory of natural gas approaches the physical limits for storage, concerns have been raised that the supply of natural gas will need to be constrained.

This increase in volatility has largely occurred since the passage of the CFMA in 2000. During this same period, commercial-trading participants on the NYMEX, that is, participants who buy and sell natural gas for use in the real economy and trade in futures contracts to hedge their transactions in the cash markets, have declined to a relatively small percentage of the market participants. Moreover, the CFMA amendments to the CEA have permitted the trading of natural gas futures both in the over-the-counter

("OTC") markets and on electronic trading facilities that escape much of the regulatory scrutiny that applies to futures trading on the NYMEX.

Even though the Commodities Futures Trading Commission ("CFTC") has taken steps to respond to unlawful acts in the markets for contracts involving natural gas, the current conditions of the natural gas futures markets indicate that Congress should strengthen the authority of the CFTC to address issues related to natural gas contracts.

First, Congress should consider amending the CEA to broaden the authority of the CFTC to enforce the anti-fraud and anti-manipulation provisions of the CEA against persons conducting transactions in exempt commodities, like natural gas, in the OTC markets.

Second, Congress should take steps to increase transparency in the markets for natural gas through expanded position reporting that would help to deter and detect fraud and manipulation. In this regard, we believe that the "Oil and Gas Traders Oversight Act of 2006" (S. 2642), recently introduced by Senators Feinstein, Snowe, Levin, Cantwell, Mikulski, Harkin and Boxer, is a good first step toward strengthening reporting requirements for transactions involving energy commodities, including natural gas.

Third, Congress should increase penalties for fraud and manipulation in the natural gas markets.

Fourth, we believe that meaningful and reasonable trading stops, such as those that exist for virtually every other commodity, would help to remove the volatility in natural gas prices; however, we recognize that there are differences of opinion on the effects of trading stops.

Thank you for the opportunity to be here today. I would be happy to address any questions the Committee may have.