

September 2013 Newsletter

Chemical Companies Are Rushing to the U.S.

Foreign companies are realizing it's cheaper to build in the U.S. Ships sailing north from Chile are bringing an unusual cargo to the U.S.: chemical factories. **Methanex**, the Canadian company of methanol, is spending \$1.1 billion to disassemble two of its Chilean factories and rebuild them in Geismar, La. The first plant is scheduled to open next year. A second will be relocated by early 2016.

Scores of other companies including **ExxonMobil**, **Chevron**, and **Sasol** plan to spend about \$100 billion to build or expand chemical plants in the U.S., according to a tally kept by **Dow Chemical**, the biggest U.S. chemical maker by sales. Dow is spending \$4 billion to build factories in Freeport, Tex., and reopen a plant in Hahnville, La., creating 500 manufacturing and 5,000 construction jobs. Five years ago the company was closing U.S. plants and moving production to the Middle East to gain access to cheaper raw materials and be closer to Asian markets.

The resurgence of the U.S. chemical industry can be explained in two words: natural gas. The shale boom has made the U.S. the lowest-cost chemical producer outside the Middle East. Gas prices have fallen by three-fourths since 2005, a boon for chemical makers that use it as a raw material and to power factories.

The U.S. logged a trade surplus of \$800 million in chemicals in 2012, its first since 2001. The surplus is expected to swell to \$46 billion by 2020.

Nearly half of all the fresh investment is coming from foreign companies. South Africa's Sasol is making the single biggest bet on the U.S., plowing \$21 billion into at least nine Louisiana plants that turn gas into plastics and diesel. Taiwan's **Formosa Plastics** plans two new factories in Texas to make ethylene and propylene, key ingredients in the manufacture of plastics and carpets, while **EuroChem**, a Russian company that makes fertilizers, is building an ammonia plant in Louisiana, where proximity to the Mississippi River provides easy access to Midwest farms.

Most of the new plants are planned for the Texas and Louisiana coast, where infrastructure already exist. "In a way, we're sitting in the catbird seat, with our water transport, pipeline networks, and cheap gas," says Patrick Jankowski, vice president of research at the Greater Houston Partnership, which promotes economic development. "Foreign companies are realizing it's cheaper to build in the U.S. than in their home country."

Nationwide chemical producers added 11,800 jobs in the 12 months through June, according to the U.S. Bureau of Labor Statistics, the biggest 12-month gain since 1988. The industry will need 46,000 more workers by decade's end, according to the ACC. Investments by chemical companies will generate an additional 1.7 million jobs in construction and other industries. **Fluor**, the general contractor on many of the new U.S. plants, expects labor needs will peak in 2016. The bottom line: Cheap natural gas is powering a \$100 billion investment boom in the U.S. chemical industry, led by foreign companies. Is there an application to Northeast Ohio due to fracking?

~ *Bloomberg Businessweek* 8-4-13

Regional Economy is Ripe for Ag Investment

Cows, pastoral farmland and growing demand for sour cream combine to make a recipe for a growing, opportunity-rich economy for northern Ohio.

Cows and sour cream? What might they have to do with an economy built on steel, chemicals, coatings and cars? The answer can be found both in a news headline from late June and in some critically important research done to help us better understand what matters and what works when it comes to building a vibrant economy.

First the headline: Daisy Brand LLC, a Dallas-based producer of sour cream and cottage cheese, announced plans to invest \$116 million in northern Ohio to build a large plant in Wooster that will create 90 jobs and generate a payroll of \$4.5 million, meaning the average salary will be about \$50,000. Ninety good-paying jobs in northern Ohio alone obviously don't translate into a vibrant economy, but they are a sign of our potential economic future.

Much of northern Ohio's economy is driven by automotive manufacturing and metalworking. A careful analysis of those industries provides three important lessons: First, as a group, those industries in northern Ohio have underperformed compared to the national economy for a long time and are projected to continue to do so into the future. Second, we have the potential to improve the performance of those industries through innovation and talent development. Third, we have the potential to grow and strengthen other industries that can become large economic drivers.

Some of those potential "new" driver industries are in the agricultural-bioscience sector. The ag-bio sector is large, diverse and complex – and therefore hard to influence. Research identified 12 potential markets – including dairy, food safety and specialty vegetables – ripe for growth that presently account for 19,000 jobs and \$3.6 billion in economic output. For reference, that's about 6,000 more people than currently work in the automotive parts manufacturing sector in Northeast Ohio. We are talking about a very large business opportunity with many jobs.

In late June, Nestle announced that it would invest \$53 million to build a new research facility in Solon. Dedicated to frozen and chilled food research, it will result in addition of 40 to 60 new, high-quality jobs. According to Team NEO, the food manufacturing sector is expected to grow by 13 percent through 2019.

Taking advantage of the agricultural-bioscience opportunity will require persistent action by civic and business leaders, including philanthropy. One reason Daisy Brand picked Wooster is because it's in the middle of prime agricultural land with a lot of dairy farms. Leaders in Wayne County take great pride – and have undertaken great efforts – to protect and preserve the county's agricultural assets. Their forward-thinking land-use policies assure that those assets aren't transformed into unsustainable retail or housing developments.



Protecting our region's agricultural assets can pay off in other ways. Research conducted by the Northeast Ohio Sustainable Communities Consortium highlights that if we continue our past development patterns for the next three decades we will have many new subdivisions but fewer residents, higher taxes, poorer communities and fewer economic assets on which to build our future. Development patterns that weaken our region's economic competitiveness cannot be sustained and should not be tolerated.

The case for better land-use policies could be enhanced if we had an even better understanding of the potential of the 12 ag-bio business sectors identified by the initial research. We hope leadership from the private, public and civic sectors will join us in taking a deeper look into the promise of these sectors and help shape strategies that protect and enhance some of our region's most important economic assets: our soils, plants and livestock. They are part of the recipe that will make a growing, opportunity-rich economy for the people of northern Ohio.

~ Brad Whitehead is president of the Fund for Our Economic Future. 7-14-13

Green Infrastructure

Floods accounted for more lives lost and more property damage than any other form of natural disaster in the United States during the twentieth century. In 2012, Hurricane Sandy killed more than 100 people and inflicted billions of dollars in infrastructure damage. In 2008, Hurricane Ike killed dozens of people and flooded more than 100,000 homes along the eastern coast of Texas. In Wisconsin that same year, heavy rainfall caused record-setting flooding, with 31 counties declared federal disaster areas.

According to the US EPA, bolstering US public water systems in the face of climate change and land development will require more than \$330 billion over the next 20 years, including investments of more than \$50 billion for dam safety and community resilience. As governments weigh their options, "green" infrastructure is gaining recognition as a cost-effective substitute for or complement to the "gray" infrastructure – pipes, dams, levees, and the like – traditionally used to control flooding, store water, and reduce urban stormwater overflows.



Green infrastructure refers to natural systems that absorb and filter pollutants from the air and water, protect communities from flooding and storm surges, reduce erosion, and enhance both community and environmental well-being. Floodplains and wetlands can provide buffers against flood risks, for example, and public parks and other permeable urban surfaces can naturally slow and filter polluted runoff.

Green infrastructure investments will often require new kinds of economic and environmental analyses, as well as negotiations and collaboration among numerous stakeholders. State and local governments often lack the resources and data necessary to evaluate green infrastructure technologies and their benefits. What tools can communities use to target ecosystem investments?

One strategy that has emerged from research by experts is the carefully targeted preservation of high-benefit, low-cost land parcels.

Limiting development on land that fits specific criteria related to flooding potential and cost can economically provide flood protection and build resilience to climate change.

The creation of the Lone Star Coastal National Recreation Area would protect hundreds of thousands of acres of coastal marsh, wetlands, and the estuary and bay through joint management by regional partners and the National Park Service. Underpinning this work is an economic assessment of the value of preserving these lands for both storm protection and recreation.

Another approach is to pay landowners for water management services. The Florida Everglades are under threat from agricultural and urban land development that is fragmenting lands, destroying species habitat, and dramatically changing traditional water drainage and flow patterns.

A Florida program pays cattle ranchers to implement water management strategies that increase water retention on their lands and reduce nutrient runoff, lessening the need for new investments in hard infrastructure, like levees and water treatment plants.

Cape May, New Jersey had the foresight to restore dunes and wetlands to provide storm protection and wildlife habitat and was spared the damage that devastated neighboring towns.

~ Resources 2013