

Third Coast Reshoring

PRIMED FOR SUCCESS



For several years, the Gulf or “Third Coast” has been primed for economic success, moving beyond recovery from events like Hurricanes Katrina and Rita and the Deepwater Horizon oil spill to a broader resurgence.

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What is “Reshoring?”

Reshoring is the return of manufacturing operations to the United States (or the location of new facilities that otherwise would have been located overseas) and is a tangible component of this resurgence of the Third Coast.

As early as 2011, *Forbes* contributor Joel Kotkin [cited](#) energy, politics, demographics, emerging trade patterns and new technologies as reasons for increased growth on the Gulf Coast. Today, new development is flowing into the region, and that flow is poised to gain even greater momentum.

Understanding the Gulf Coast reshoring phenomenon and its implications is essential for any company considering expansion or recapitalization of its production capabilities—particularly those corporations that value a North American customer base. The following is an introduction to:

- Drivers of reshoring
- What Third Coast reshoring looks like
- Sector highlights
- Business and legal considerations

Drivers of Reshoring

In the last six months, we have seen reshoring activity accelerate exponentially across the Third Coast. Recent research highlighted in the [Harvard Business Review](#) and the [MIT Sloan Management Review](#) demonstrates the many trends we are seeing, including:

Value in U.S. Presence

Corporations see a number of advantages in U.S. locations, including proximity to customers, flexibility to respond to changes in demand, and supply chain efficiency. Meanwhile, labor costs are declining in significance as a differentiator between the U.S. and China as the Chinese labor market matures and its currency strengthens.^{1,2}

Technological Improvement

Given the move to offshoring production over the last number of years, U.S. manufacturing has had to become increasingly effective, employing technologies and process improvement to maintain a competitive position in the marketplace. With technological improvements, American companies often have a competitive advantage when it comes to producing technologically advanced, differentiated goods that require precision manufacturing and a high level of quality control.³ Emerging technologies like 3-D printing hold a great deal of promise for complex, low-volume products for industries like aerospace and defense.

Energy Implications

With the domestic energy boom, the U.S. is an increasingly attractive location for manufacturers that are energy intensive or that use natural gas as feedstock. Chemicals and petrochemicals are two such industries, evidenced by the development in this sector on the Gulf Coast. Commodity good-producing industries that require less technical skill are likely to remain offshore due to the availability of a worker supply force that is willing to accept comparatively lower wages; however, this is not an absolute.

For instance, Mexico's Grupo ZAGA, a company in textiles, successfully established Zagis and is now investing to build a second plant under the Gulf Coast Spinning brand in Louisiana.

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The domestic energy renaissance, brought on by low natural gas prices, high oil and natural gas liquids pricing, the shale boom, the drive to manufacture LNG facilities for export, and other technological advances have all resurrected pipeline, exploration and production, refining and other manufacturing segments. The existing infrastructure, expertise, labor and location of the Third Coast are all advantages resulting in the resurgence of these industries here.

Deterrents and Pressures

According to recent research, high corporate taxes and regulatory uncertainty are the two biggest factors hindering U.S. manufacturing from growing faster. Finding employees with the right skills, especially trades people proficient in metalworking and metallurgy, can be a challenge, as is finding automation engineers and other specialists to support the setup of new assembly operations, but forward-thinking companies are investing in local trade schools to respond to this need.

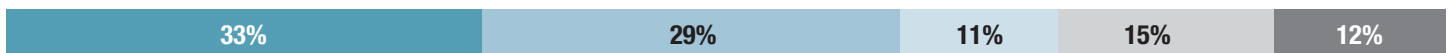
Meanwhile, consumers expect to pay little, if any, premium for products made domestically versus those imported from abroad, necessitating the implementation of a wage rate that is globally competitive when adjusted for productivity, without compromising quality.

MOST EXECUTIVES SEE U.S. MANUFACTURING AS INCREASINGLY ATTRACTIVE (Percentage of respondents who agree or disagree)

Our firm is likely to accelerate our growth in U.S. manufacturing in the next five years



Our firm plans to invest more in onshore than offshore manufacturing in the next five years



I believe the U.S. is undergoing a manufacturing renaissance



Strongly agree = Percentage of respondents rating 6 or 7 (on a 7 point scale).

Strongly disagree = Percentage of respondents rating 1 or 2.

Source: L.E.K. Survey of 205 Companies in 10 U.S. Manufacturing Industries hbr.org

Reshoring on the Third Coast

A variety of factors are contributing to the current rate of investment, economic development, and reshoring on the Gulf Coast.

These include:

- Evolving trade patterns
- Corporate taxation and incentives
- Abundant natural gas
- Labor force and wages
- Education
- Proximity to rivers, ports, rails, interstates and other infrastructure elements, along with access to raw materials

Companies like hair and spa product maker Farouk Systems, LED manufacturer Neutex Advanced Energy Group, and headphone maker Sleek Audio, among others, have returned their operations to the Gulf Coast after years of producing offshore. Their reasons for returning vary from a desire to see jobs return to the U.S. to the need for greater quality control.

In order to gain greater understanding of regional and industrial factors and enticements, we have researched and reviewed a large cross-section of the economic growth activity that has taken place in the region this year to identify and distill key issues.⁴

Regional Considerations

- According to a recent *Forbes* article, "[America's New Brainpower Cities](#)," the region is seeing a large influx of well-educated graduates due to lower costs of living and job opportunities. In the list of Brainpower cities, New Orleans gained the greatest percentage of college graduates between 2007 and 2012 (25.4% or 44,005), followed by Houston in sixth, with 185,012 additional graduates, or 19%.
- While well-educated graduates are coming to the Gulf Coast, creating a great pool of specialized and management candidates, there still exists a sizeable labor pool to draw from. According to the BLS, Mississippi had 8% unemployment as of July, followed by Alabama's 7%, Florida's 6.2%, Louisiana's 5.4%, and Texas's 5.1%. Coupled with this higher rate of unemployment, as research from Card and Blanchflower and Oswald indicates, areas of high unemployment tend to pay lower wages, creating a potential strategic advantage for those companies with high labor force needs.

- The area identified by Richard Florida, founder of the Creative Class Group, as Hou-Orleans, which stretches from Houston through New Orleans to Mobile, is responsible for over \$750 billion in economic output.
- Mississippi, Texas, Louisiana, Alabama, and Florida all offer a variety of incentives to attract businesses. Many of our clients who have moved operations to this region cited tax incentives and exemptions as the primary reason for relocation.
- [Texas](#)—home of 52 companies in the Fortune 500 list—ranked first in *Chief Executive's* survey of 500 CEOs, followed by second-place [Florida](#). [Louisiana](#) was called the "Cinderella state" of the rankings, jumping from 40th in 2010 to 9th place in 2014.
- Manufacturing in the Houston region has received a boost from the need for new refineries and pipelines, according to *Forbes*, which has ranked the Houston-Sugar Land-Baytown metropolitan region the best in the country for manufacturing growth. Large cities on the Gulf Coast cited as the most cost-friendly cities to do business by KPMG include Tampa and Houston. Alabama, anchored by Mercedes-Benz, has been called the "best state for auto manufacturing" by *Business Facilities* magazine. In that list, Texas also placed 9th, followed by Mississippi in 10th.
- Southwest Alabama was named by the Obama Administration as one of 12 "Manufacturing Communities," which will see the region work on strengthening and expanding workforce partnerships in shipbuilding and aerospace.

Key Sector Activities

Energy

The Gulf Coast is [said](#) to be ready for a Bakken-like boom in liquefied natural gas, with dozens of facilities ready to launch, and others going through the approval and investment decision process. Two projects—Cheniere Energy and Phelps Dunbar client Cameron LNG—have both received FERC approval for LNG projects. Up to a dozen long-term deals, each worth billions of dollars, have been signed by American natural gas producers with companies in China, Japan, Taiwan, Spain, France and Chile, according to Reuters. One market research firm, Industrial Info Resources, predicts \$64 billion will be spent to build at least seven LNG facilities on the Gulf Coast in coming years.

Many other energy-related businesses are launching in the region in addition to LNG, and those in the energy industry supply chain are benefitting. Recent examples include the establishment of the world's largest ethane export terminal in Houston by Enterprise Products Partners, Phillips 66's expansion of its facilities in Houston, and Danos's choice of the Port of Iberia for a \$23 million fabrication yard.

The Gulf Coast [boasts](#) 45% of U.S. refinery capacity, and 46% of natural gas processing plants in the country. These factors could help entice energy-intensive manufacturers to the region with cheaper input costs.

Renewable energy and sustainability are also playing a role on the Gulf Coast. For example, in Louisiana Gov. Bobby Jindal recently announced 10 sugar mills, working with NFR BioEnergy, would develop biorefineries where bagasse—or sugar cane waste—is turned into energy pellets for use at power plants. Phelps Dunbar client Cora Texas Sugar Mill is the site of the first biorefinery. Phelps has experience in this emerging sector, having worked with a number of clients in the development, construction, and operation of renewable energy facilities.

Chemicals

Closely correlated with energy is the chemical industry. The chemical industry in the region is reaping a boom in investment, presenting huge potential opportunities for businesses within the chemical value chain, as well as in adjacent sectors. As of August, 70% of announced chemical industry projects (some 196 projects and \$124 billion in cumulative potential investment) was destined for the Gulf Coast, according to the American Chemistry Council. Top petrochemical manufacturing locations from 2010–2014 [include](#) Houston, Baton Rouge, New Orleans, and Lake Charles, among others.

The emergence of many ethane crackers within the region, a potential \$1.2 billion fertilizer plant for AM Agrigen, Air Liquide's \$230 million Bayport Industrial District project, and BASF's development of a "world-scale" ammonia plant in Freeport, Texas highlight just some of the developments within the region.

CLIENT CASE STUDIES

CF Industries

Project: Conducting a \$2.1 billion expansion of the largest nitrogen complex in North America, in Donaldsonville, Louisiana.

Projected Finish Date: 2016

Geographic Advantages: Access to multiple modes of transport (barge, rail, pipeline, and truck), providing flexibility in serving agricultural, industrial, and other markets.

Dyno Nobel

Project: Building a \$850 million ammonia plant as part of a larger \$1.025 billion project in Jefferson Parish, Louisiana.

Projected Finish Date: 2016

Geographic Advantages: Supports the company's industrial explosive business in the U.S., as well as external customers. The site also offered "a competitive gas price, a responsive government regulatory process, a brownfield site and a professional business environment," according to parent company chairman Paul Brasher.

The sector is not without its challenges, as Boston Consulting Group named implementation of sales and marketing plans for methanol, ethylene and ethane-derivative plants as hurdles to overcome, and for propylene plants, access to feedstock, construction, and knowledge of the market are all concerns. A number of firms seek to provide guidance in this area, ranging from major firms like AECOM and Accenture to smaller local firms, like Gulf Coast Consulting and Turner, Mason & Company.

Manufacturing

Manufacturing is slowly returning to the U.S., [according](#) to Bloomberg, and much of the action has been below the Mason-Dixon Line. A variety of manufacturing operations are located on the Gulf Coast, including those in the firearms, electronics, automotive, construction products, apparel, shipbuilding, heavy equipment, pipe and tubing, and other industries.

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As manufacturing and other industries continue to drive growth in jobs, there are spin-off benefits for the construction industry and its supply chain, as residential real estate developments emerge to meet housing needs.

Louisiana has the nation's lowest taxes for new manufacturing operations, and is third for percentage of manufacturing gross state product at 22.6%, according to the National Association of Manufacturers. Top manufacturers in the state for 2014 included Omega Protein and the Valero St. Charles Refinery.

Alabama was called the "best state for auto manufacturing" by *Business Facilities* magazine, and is anchored by Mercedes-Benz, which is expanding its operations in the state. Overall, the state's manufacturing job level is within 14% of what it was before the recession.⁵ Steel, chemical manufacturing, forestry, and food processing are among segments of importance for the area.



As of 2013, Texas's manufacturing sector represented 15% of state GDP, and 8% of employment, according to state figures. Top sectors include fabricated metal, machinery, and food manufacturing.

Mississippi, home to the massive Ingalls shipyard, is above the national average in manufacturing, one of the bright sectors for the state. Ingalls, the state's largest employer with over 12,000 workers, recently launched a campaign to hire an additional 2,500 workers. Other large manufacturers on the Gulf Coast include DuPont DeLisle, Gulf Ship, and United States Marine Inc.

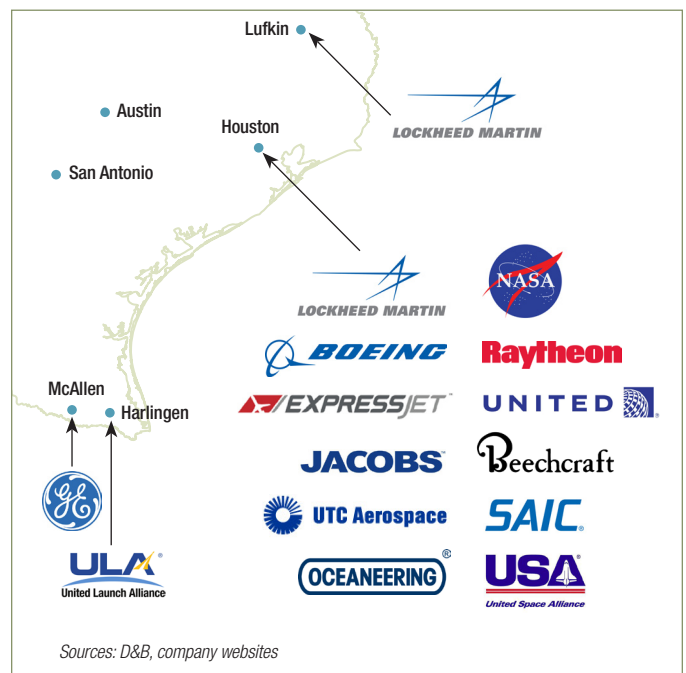
Aerospace

A 2014 [report](#) prepared for the state of Texas on the Texas aerospace and aviation industry shows a number of prime and supporting manufacturers located on the Gulf Coast.

The state has several funds, including the Texas Enterprise Fund and the Texas Emerging Technology Fund, to help attract aviation and aerospace companies and technologies through investment. With employees in the sector averaging over \$80,000 annually, and a strong aeronautically-focused education sector, the region is well-positioned to continue fostering growth.

The Gulf Coast Aerospace Corridor 2014–2015 highlights the following for the remainder of the Gulf States:

- Alabama, Florida, Louisiana and Mississippi combined rank as the fourth largest aerospace region in the country, according to the Aerospace Alliance, a four-state group representing the aviation and aerospace interests of all four.
- According to ICF International, one of the hottest new aerospace clusters is the U.S. Southeast.
- Major projects in the region have included Airbus's \$600-million plant in Mobile; the Northrop Grumman Moss Point plant, which does assembly on the company's Fire Scout and variants of the Global Hawk aircraft; and NASA's Orion and Sierra Nevada's Dream Chaser are being built in New Orleans.
- Thousands of companies are involved in the sector within the region: Florida has over 2,000; Alabama has over 300; and Mississippi has approximately 700. Louisiana does not track the numbers of companies within the state.



Business and Legal Considerations

Businesses will gain maximum advantage from reshoring initiatives on our Third Coast by understanding and deftly navigating the unique legal and business landscape of our region. Areas to pay particular attention include employment, immigration, real estate, construction, corporate finance and tax.

Employment & Immigration

Identifying, hiring and managing the workforce with the right skills are crucial to an efficient manufacturing operation. Welders, electricians, instrumentation technicians, fabricators, and pipe fitters are among the skills in greatest demand as well as experienced managers, and the concern for finding qualified labor is likely to grow through the next several years as construction increases in the region. Employers are likely to deal with local, state and federal employment, labor, and immigration laws in the process.

Phelps clients that have moved manufacturing operations back to the Gulf Coast have benefited from workforce training programs offered by various economic development groups, such as Louisiana Economic Development's FastStart® program. We have also seen companies recruit skilled workers from abroad in the information technology, engineering and medical research fields.

Questions to consider:

- If skilled employees cannot be found domestically, where do we find qualified individuals to fill these roles? Are there immigration/visa implications that we will have to navigate? Are there any temporary or incentive-based programs we can tap into? One such example was Ingalls shipyard, which, due to a need to fill some 3,000 positions, went across the nation and to Puerto Rico in its recruiting program.
- What mix of automation and human workforce will be best for our operation?
- What are the implications of the Gulf States being right to work states? Is there pending legislation that may permit unionization to occur, and would this pose a challenge to our business?

Real Estate

Understanding the local real estate landscape is essential and with the number of new and repurposing developments taking place in the region, it is evident that real estate is available. The Gulf States are especially eager to attract development.

Other points of consideration include:

- Are there specific entitlements that will have to be obtained? Are certain states better legislated for our sector?
- Are there environmental issues that will have to be dealt with?
- What is the best strategy for our business? Should we buy or lease real estate?
- How can we capitalize on location? Can we unite our R&D and production functions to create shorter lead times and more rapid product cycles? Would close proximity to one or more key suppliers create greater competitive advantages? Would there be trade-offs to such a location?
- Are there specific land use restrictions and limitations we need to be aware of?

Construction

Contractors, owners and designers engaging in construction projects on the Third Coast must navigate a unique legal landscape. Louisiana, for example, has a licensing scheme for designers and contractors which, if not followed, can impact the enforceability of contracts. A relatively new anti-indemnity provision in Louisiana also prohibits the "knock for knock" type of indemnity provisions which are so common in the energy industry. Because many key pieces of Louisiana legislation which impact construction cannot be avoided through choice of another state's law, all parties in the process must understand the limitations in order to protect their interests and investments.

As mentioned previously, the competition for workers in key trades is rising, and is likely to continue to be tight until supply catches up with demand. Corporations seeking to avoid unnecessary delays should undertake anticipatory planning for construction projects, and consider the following:

- Who are the top construction firms in the region?^{6,7}
- What supplier issues will I encounter?
- How can I optimize the construction process to minimize interference on current operations?
- Are there contractual considerations from state to state I need to be aware of?
- What are the permit requirements?

Corporate Finance

While many states offer tax breaks and incentives, there are a variety of financing considerations to contemplate:

- Given our corporate structure, are there certain programs, incentives, tax structures, or special types of financing arrangements we can leverage? Would a P3 project be an advantageous project structure for us?
- If we need additional funds for liquidity or operational needs, what is the best solution given our situation?
- Are there any considerations for our current accounting reporting methods? Will we require any state-specific changes?
- Are there hedging opportunities available through other currencies or commodities?

Tax

The states on the Gulf Coast provide a large variety of tax incentives to attract new and additional investments in the region. For instance, Alabama promised Airbus \$158 million in incentives to build its plant in Mobile. With proper planning and an open dialogue with the appropriate governmental agencies prior to

making an investment, companies can receive substantial benefits through direct and indirect tax subsidies. These benefits could transform a project that is otherwise not economically feasible into a profitable undertaking. Many incentives are provided to companies that choose to invest in the Gulf Coast when they could invest elsewhere.

There are several factors that can impact whether the various tax incentives are available in the Gulf States:

- Will the proposed project result in increased payroll in one of the states?
- Will the project involve substantial capital expenditures?
- Could the project benefit from government-provided infrastructure such as railway spurs, roads, etc.?
- Will the investment be located in an economically depressed area?
- Will the project be part of the manufacturing industry or other industry identified by one of the Gulf Coast states as an industry they desire to attract?

Conclusion

Phelps Dunbar has assisted a number of clients in reshoring manufacturing operations to the Gulf Coast and we have particular expertise in the area of project development and finance. Our lawyers are able to assist in all of the legal disciplines that impact reshoring and project development, including EPC contracts and construction matters, taxation, real estate, environmental permitting, governmental and regulatory matters, financing, labor and employment, immigration, and marine and energy. With our geographic presence across the Gulf, direct experience working with some of the large projects currently taking place on the Third Coast and the depth of expertise offered by our lawyers, we are the ideal firm to counsel your organization as you consider reshoring.

To further discuss the issues of reshoring and to learn more about our services and how they match with your legal needs, please contact:

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Footnotes and Selected Sources

Footnotes

1. Domestic companies may face competition over the capital and human assets as foreign companies bring operations to the U.S. Over the past five years, Chinese companies have [invested](#) about \$1 billion a year in the U.S., and in the first quarter of 2014, Chinese investment in the U.S. topped \$6 billion. A recent example is Yuhuang Chemical's [investment](#) of \$1.85 billion in a Louisiana methanol project. Japanese companies are also investing: in the Gulf region, [according](#) to the Atlanta-based General Consul for Japan, there is a flurry of site searching going on by Japanese manufacturers.
2. One example of the evolution of the labor market is as follows: In 2001, when China [joined](#) the World Trade Organization, the price of oil was \$20 a barrel and the hourly manufacturing wage in China's Yangtze River Delta was 82¢ an hour. Oil is now more than \$100 a barrel and workers in the Yangtze make \$4.93 an hour.
3. An April 2014 study by Boston Consulting Group [found](#) that the U.S. now ranks second only to China in manufacturing competitiveness among the top 10 exporting countries, and the U.S. is [said](#) to be a "rising star" for global manufacturing.
4. Additional reading: "Gulf Coast Business Council Research Foundation," [CEO & Business Owner Confidence Survey for the Fourth Quarter 2013](#)
5. Manufacture Alabama is a trade association that works with manufacturers to protect their competitive, legislative, regulatory, and operational interests.
6. *Florida's Business Observer* provided a list of the [Top 50 Contractors for 2014](#).
7. ENR's Top 400 list.

Selected Sources

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About Phelps Dunbar

With offices positioned along the Gulf Coast from Texas to Florida, Phelps Dunbar is a regional law firm of more than 270 attorneys uniquely equipped to serve clients in the major commercial centers of the burgeoning "Third Coast" of the United States. Locations in New Orleans and Baton Rouge, Louisiana; Jackson, Tupelo and Gulfport, Mississippi; Houston and Dallas/Fort Worth, Texas; Tampa, Florida; Mobile, Alabama as well as Raleigh, North Carolina; and London, England enable Phelps Dunbar to serve clients not only along the Third Coast, but also the South, nationwide and abroad.